

## Country profiles on the housing sector



Georgia



UNITED NATIONS



ECONOMIC COMMISSION FOR EUROPE

COUNTRY PROFILES  
ON  
THE HOUSING SECTOR

**GEORGIA**



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## ***FOREWORD***

The country profiles on the housing sector are intended to assist the Governments of countries with economies in transition in improving the performance of their housing sectors while promoting sustainable development. The reviews analyse trends and policy developments and make an overall assessment of the political, economic and social framework of the sector in the process of reform. This work was initiated by the United Nations Economic Commission for Europe (UNECE) Committee on Housing and Land Management in the early 1990s, in response to requests from its member States.

The studies are carried out by international teams of experts in cooperation with governmental bodies, other international organizations, non-governmental organizations, local authorities and the private sector. Through a process of broad consultations, the experts carry out a comprehensive review of the housing sector and derive recommendations to help policymakers develop strategies and programmes.

This country profile on the housing sector of Georgia, prepared at the request of the Ministry of Economic Development, is the eleventh in the series published by the UNECE Committee on Housing and Land Management. The country profile programme continues to emphasize in-depth analysis and policy recommendations, but also focuses on specific problems within the housing sector that are of particular concern to the countries under review. In the case of Georgia, these are the issues of reconstruction, management and maintenance of the existing housing stock as well as affordable housing for vulnerable population groups. This country profile report puts forward a set of policy recommendations. Their timely and effective implementation is regarded as crucial to meeting the challenges in housing and urban planning Georgia currently faces.

I would like to thank the international and local experts who contributed to the preparation of the country profile as well as the Governments that provided funding. I hope that this country profile will prove useful to all those with an interest in Georgia's housing sector – policymakers and legislators, government officials, academics, non-governmental organizations and other national stakeholders, as well as international organizations, including lender and donor organizations, technical assistance agencies and private-sector investors.



Marek Belka  
Executive Secretary  
United Nations Economic Commission for Europe



## ***PREFACE***

The country profile on the housing sector of Georgia was requested by the Ministry of Economic Development of Georgia and started with a preparatory mission by the UNECE secretariat in April 2006. The research mission by the international expert team was carried out in May-June 2006. The project's expenses were covered by extrabudgetary funds provided by the Governments of the Czech Republic, the Netherlands and Slovenia. The successful conclusion of the project would not have been possible without this generous support.

The previous studies in this series include: Bulgaria (ECE/HBP/101, published in 1996); Poland (ECE/HBP/107, 1998); Slovakia (ECE/HBP 111, 1999); Lithuania (ECE/HBP/117, 2000); Romania (ECE/HBP/124, 2001); Moldova ((ECE/HBP/125, 2002); Albania (ECE/HBP/130, 2003); Armenia (ECE/HBP/132, 2004); the Russian Federation (ECE/HBP/131, 2004); and Serbia and Montenegro (ECE/HBP/139, 2006). Previous work carried out by UNECE in Georgia includes a Land Administration Review (ECE/HBP/WP.7/2001/9, 2001) and an Environmental Performance Review (ECE/CEP/117, 2003). Three other UNECE publications related to housing may also prove useful to Georgia and other countries in transition: (a) Guidelines on Condominium Ownership of Housing for Countries in Transition (ECE/HBP/123, 2003); (b) Housing Finance Systems for Countries in Transition (ECE/HBP/138, 2005); and (c) Guidelines on Social Housing (ECE/HBP/137, 2006). This country profile and the other publications mentioned above are available on the website of the Committee on Housing and Land Management (<http://www.unece.org/hlm/welcome.html>).

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Ms. Cecilia Batac (UNECE)	Socio-economic conditions
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The international experts provided input on their above-mentioned area of expertise. Although mainly drafting one specific chapter, parts of their work has been allocated to different chapters for better cohesion and clarity. The legal framework has been fully incorporated as appropriate. The final publication is considered as a result of joint teamwork.

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## *List of abbreviations and acronyms*

EDPRP	Economic Development and Poverty Reduction Programme
GDP	Gross Domestic Product
GEGI	Georgia Enterprise Growth Initiative
GNI	Gross National Income
GSE	Georgian State Electrosystem
GTZ	Gesellschaft für Technische Zusammenarbeit (German Technical Cooperation)
GWE	Georgian Wholesale Electricity
HOA	Homeowners Association
IDP	Internally Displaced Person
IMF	International Monetary Fund
MDGs	Millennium Development Goals
MED	Ministry of Economic Development
NBG	National Bank of Georgia
NGO	Non-Governmental Organization
NRC	Norwegian Refugee Council
OCHA	Office for the Coordination of Humanitarian Affairs
SNiP	Stroitelnye normi i pravila (Construction Norms and Regulations)
UDC	Unified Distribution System
UNCT	United Nations Country Team
UNDP	United Nations Development Programme
UNECE	United Nations Economic Commission for Europe
UN-HABITAT	United Nations Human Settlements Programme
UNHCR	United Nations High Commissioner for Refugees
USAID	United States Agency for International Development



## *EXECUTIVE SUMMARY*

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### *Socio-economic conditions and housing policy framework*

Georgia's economy suffered severely with the collapse of the Soviet Union, and the situation further worsened with the armed conflicts following independence in 1991. Economic growth only started to accelerate again after 2000. More than half of the population lives below the official subsistence level. Total population of Georgia fell by almost one fifth to 4.4 million in 2002, mainly due to out-migration.

The privatization of the housing stock started in 1992, and by 2004 almost 95 per cent of the housing stock was privatized. The transfer of houses or flats practically for free to citizens, however, was carried out without an overall vision of urban planning and without specifying the duties of homeowners, especially in multi-family housing units. Although several attempts had been made to initiate a housing policy framework, so far only a limited set of general commitments has been expressed towards the international community.

### *Institutional framework*

At the national level, the Department of Urbanization and Construction of the Ministry of Economic Development (MED) is responsible for housing and urban planning. The system of local government is currently being restructured in an attempt to strengthen self-government. The corresponding Organic Law on Local Self-Government (2005) allows for the development of more viable structures and budgets. It is essential that responsibilities of local self-government units are accompanied by the necessary financial and human resources. The transfer of land ownership to local governments represents a step forward with regards to urban planning.

### *Existing housing stock*

A major part of the existing housing stock not only requires repair, but basic reconstruction of the main building structures to be carried out. Another part, showing damages due to natural deterioration, the 2002 earthquake or a lack of maintenance, may even be subject to demolition. Problematic extensions constructed by individual residents (balconies, additional rooms, chimneys, etc.) pose considerable challenges to the safety, functioning and appearance of buildings.

### *Housing maintenance and management*

After privatization, new homeowners had no experience or resources to fulfill the obligations and responsibilities with regard to the management and maintenance of the building and its facilities, especially in multi-family housing units. This led to a severe neglect of management and maintenance, and to a further deterioration in the quality of the housing stock. A number of pilot projects and useful initiatives have helped the growth of homeowners' associations. In Tbilisi, the municipality established a unit called the Tbilisi Corps as a contact body between the city and residents, to support the development of homeowners' associations and participate in renovation projects.

### *New construction*

The activity of the construction sector almost ceased after the collapse of the Soviet Union, and did not recover much until 2003. Still, the average size of most existing construction companies is too small to work efficiently, and the construction industry suffers from a lack of adequate legislative framework and the absence of principles for construction norms and a qualified workforce. Construction sites lack a system of safety measures. A draft Construction Code has been elaborated and is expected to be adopted soon.

### *Urban planning and heritage protection*

Comprehensive urban planning has not been applied after the independence of Georgia. Legislation is sporadic and incomplete. New master plans for most cities of Georgia have not been elaborated or approved.

This has led to a constant degradation of the urban environment and illegal construction activities. Some steps were taken to preserve buildings of historic interest, e.g. through the establishment of the Foundation of Cultural Heritage Protection of Georgia and the Old City Rehabilitation and Development Fund in Tbilisi and the listing of buildings of historical value. However, a number of historical buildings require renovation and urgent repair.

### *Utilities*

The provision of electricity and gas - the latter having become the basic means for heating - is not fully reliable. Parts of the distribution system are in poor technical condition. The rate of fee collection is reported to be low, and outside Tbilisi less than half of the customers are metered at all. At the same time, privatization of the energy sector has not made much progress. Water losses through depreciated pipelines and excessive use of water result in a high water consumption per household and day in Tbilisi of 743 litres. Almost all wastewater treatment facilities in Georgia are inoperable.

### *Affordable housing for vulnerable households*

The issue of affordable housing for vulnerable households is generally not addressed by the Government at present. However, there is a focus on the accommodation of internally displaced persons (IDPs). Other population groups that might not be able to meet their needs on the housing market include eco-migrants, the elderly, low-income families or disabled persons. In 2006, a Government Commission on the Development of the National Strategy on IDPs was established, led by the Ministry of Refugees and Accommodation. The Commission is composed of representatives of different Ministries, non-governmental organizations (NGOs) and international organizations. The Strategy has been approved, but does not deal with housing issues as it was initially planned. However, it is foreseen that it will include housing issues in the resulting action plan, which might provide a starting point for the formulation of an overall housing policy for all vulnerable population groups.

### *Public and private investment in housing*

Public investment in housing on the national as well as on the local level practically ceased after the collapse of the Soviet Union. At the same time the private sector was not immediately capable of taking over the role as the primary source of investment. Particularly on the local level, where the main responsibilities for the implementation of housing policies are located, financial and human resources are very tight and often only sufficient for performing basic administrative duties. Within the new system of local self-government, local governments will have the ownership of land within their boundaries transferred to them. The law does not foresee, however, that revenues from land sale are ring-fenced for housing purposes. In general, tax revenues both at the national and the local level increased significantly in recent years.

### *Mortgages and banking market*

The mortgage sector only started to develop in the last four years and experiences strong growth today. Leading banks provide mortgage loans at nominal interest rates of between 13 and 20 per cent. Longer maturities (10 years and more) have become available. Affordability of mortgage loans remains, however, limited as real interest rates are relatively high and a minimum salary of around US\$ 400 is required to apply for a mortgage loan with most banks. Average loan-to-value ratios are reported to be within a reasonable range of 60-80 per cent. A number of legal limitations contained in Civil Law constrain the further development of the mortgage market, in particular those relating to foreclosure and eviction.

The banking market started to recover from 1997 onwards. In 2005, credits grew by 85 per cent, and the ratio of loans to GDP more than doubled between 2000 and 2005. Long-term refinancing facilities for banks, however, are still very limited, thus constraining the ability for long-term lending.



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*Recommendations*

From the above findings, the following set of 38 recommendations is put forward:

1. Greater political priority should be attached to the housing sector.
2. A national housing strategy should be elaborated.
3. Housing policies should be implemented by involving international donors and NGOs.
4. The capacity of the Ministry responsible for housing should be strengthened.
5. The cooperation between different Ministries and stakeholders in the field of urban development, housing and construction, under the lead of the MED, should be intensified.
6. Responsibilities of local authorities related to housing should be clearly defined.
7. The responsibilities of local governments related to housing should be reflected in their organizational structure.
8. Tailored training activities for local employees should be scheduled.
9. Priority should be assigned to the reconstruction, renovation and management of the already existing housing stock rather than to new housing construction.
10. Central and local governments should collect comprehensive information about the existing housing stock.
11. The preparation of legislation on the future of illegal buildings and structures should be initiated.
12. Housing maintenance schemes should be designed and launched.
13. A law on homeowners' associations and condominiums should be adopted
14. Governmental support for the further establishment of homeowners' associations should be provided.
15. Principles for national construction norms should be adopted.
16. The draft Construction Code should be rethought and adopted.
17. Education and training of construction professionals and workers should be improved.
18. Adequate urban planning documentation should be developed.
19. A comprehensive Land Code should be drafted.
20. The role of the municipalities in urban planning has to be strengthened.
21. Measures should to be taken to prevent new illegal construction.
22. Efforts to preserve historical buildings and districts should be continued and strengthened.
23. Central Government should formulate standards and objectives for the utilities sector.
24. Separate per household metering and fee collection should be intensified.

25. Utility infrastructure projects being carried out together with international organizations should be continued and expanded.
26. Housing policy should define instruments for the provision of affordable housing to all socially vulnerable households.
27. A housing needs assessment should be initiated.
28. Incentives for the private sector to increase the supply of low cost housing should be developed.
29. Municipalities should consider to what extent existing dwellings could be used for social housing purposes.
30. State or local government grants, loans, guarantees or equity share loans for essential repairs should be introduced.
31. Realistic standards should be defined for the quality of social housing.
32. Financial means for housing projects on the municipal level should be increased.
33. Legislation for the effective management of State-owned land should be drafted.
34. Legislation on land/real estate mass evaluation should be adopted.
35. Investment in housing should be encouraged.
36. Possibilities of public-private partnerships should be explored and adapted to the housing sector.
37. Legislation for mortgages needs to be amended, as set out in chapter V.
38. The development of a market-driven banking sector should be supported.

## ***SOCIO-ECONOMIC CONDITIONS AND HOUSING POLICY FRAMEWORK***

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### **A. General information**

#### ***Geographic situation***

Georgia is strategically situated at the dividing line of Europe and Asia, also known as the Silk Road. It is part of the Caucasus region, and is bordered by the Black Sea in the west, Turkey and Armenia in the south, Azerbaijan in the east, and the Russian Federation in the north. It covers an area of about 69,700 km<sup>2</sup>, has land boundaries totalling 1,461 km, and has a 310-km-long coastline.

Georgia is largely mountainous with the Greater Caucasus Mountains in the north and the Lesser Caucasus Mountains in the south. The two largest rivers, the Mtkvari (Kura) and the Rioni, flow in opposite directions: the Mtkvari flows generally eastward into the Caspian Sea, while the Rioni empties into the Black Sea to the west.

#### ***Political system***

State independence was proclaimed on 9 April 1991. The highest legal act is the Constitution, adopted on 24 August 1995, with further amendments contained in the Constitutional Law of Georgia, adopted after the “Rose Revolution”.

The Parliament consists of 235 members, 150 of whom are elected by proportional system and 85 elected by majority system (one elected delegate per territorial unit), for a term of four years. According to changes in the Constitution made in 2005 (article 49), the number of parliament members will be reduced to 150 from 2008 onwards. The Parliament exercises legislative power and general control over the Government as well as determining domestic and foreign policy. Executive power is vested in the President – who is elected for a term of five years – the Prime Minister and the Government. The President is the Head of State and the Parliament is the country’s highest representative body.

Georgia consists of nine regions, and includes two autonomous republics: Ajara, situated in southwest Georgia, and Abkhazia, in the northwestern part. Both autonomous republics include stretches of the Black Sea coast. The conflict region known as South Ossetia is also in Georgia, and is located in the north-central part of the country.

### **B. Socio-economic conditions**

#### ***Overall economic development***

Since 1995, Georgia’s economy has been growing at an average rate of 6.25 per cent. This can be attributed primarily to the introduction of a new currency, the Georgian lari, replacing its provisional currency, the Coupon. In 1998, the same year that major hostilities in Abkhazia had again broken out, economic growth took a sudden dip with the Gross Domestic Product (GDP) posting a low 3.1 per cent growth rate as compared to the previous year’s 10.5 per cent. Georgia’s gross national income (GNI) per capita amounts to US\$ 736.<sup>1</sup>

Georgia’s economy suffered severely with the collapse of the former Soviet Union at the beginning of the 1990s. The economic situation further worsened with the armed conflicts and civil strife that followed its independence in 1991.

The disruption of established trade patterns in the country, deterioration of infrastructure, massive unemployment, high inflation and energy crises were only some of the country’s economic woes. Under such conditions, the Government of Georgia recognized the need for structural reforms aimed at alleviating economic conditions, which could in turn improve the life of its people. With the help of international organizations, a series of reforms were implemented with stabilizing and positive results for the economy.

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<sup>1</sup> World Bank. Country Brief 2006.

Figure 1.1. Map of Georgia



The boundaries and names shown on this map do not imply official endorsement or acceptance by the United Nations.

Even so, Georgia's recovery trails behind other countries from the former Soviet Union such as Armenia and Azerbaijan (see table 1.1), although the economic structure of these countries is not fully comparable.

Economic growth started to accelerate again after 2000, reaching a two-digit growth rate in 2003 for the first time in five years.

Agriculture is an important sector of the economy, and is a large contributor to Georgia's GDP. This sector's output trend, however, has shown a steady decline since 1998. The share of industrial output has been stagnating since 1997.

### *Income, poverty and employment*

Based on 2003 data, more than half of the population of Georgia lives below the official subsistence level of 131 lari and nearly half have incomes below 50 lari. Poverty rates in the urban areas are higher than in the rural areas. In 2003,

the proportion of rural households falling below the official subsistence level increased from 49 per cent to 56 per cent.

Household income derived from contractual employment accounts for only about one fifth of the total. The percentage of income derived from sale of assets or use of savings had grown since 1998, replacing income from self-employment as the second most important source of income. Income from the sale of agricultural products is also a major contributor to total income. The minimum and real average monthly wages grew during the period 1997–2002 and also after 2003, especially in the public sector, although nominal averages remained very low.

The average wage per month in 2002 was still below the official minimum subsistence level of 125 lari. A major cause of poverty in Georgia is unemployment, which continues to be a big problem in the country. The total unemployment rate in 2005 was 13.8 per cent.

*Table 1.1. GDP at prices and purchasing power parities of 2000, growth rate*

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Georgia	2.6	11.2	10.5	3.1	2.9	1.8	4.8	5.5	11.1	6.3	9
Armenia	6.9	5.9	3.3	7.3	3.3	5.9	9.6	15.1	14	10.1	13.9
Azerbaijan	-11.8	1.3	5.8	10	7.4	11.1	9.9	10.6	11.2	10.2	26.4

Source: UNECE statistical database

The unemployment rate among males (14.8%) was higher than females (12.6%). However, these figures may underestimate the actual unemployment situation, as 2005 data show that approximately 66 per cent of the employed in Georgia were self-employed, and around 37 per cent of these were in the agricultural sector. The agricultural sector accounts for more than half of Georgia's total employment (54.3%).

### C. Population and migration

#### *Total population*

The population of Georgia, based on its last two Population Censuses, fell 19 percentage points, from 5.4 million in 1989 to 4.4 million in 2002. Less than half of the population lives in rural areas. About 52 per cent of the population lives in urban areas, of which 47 per cent live in Georgia's capital and largest city, Tbilisi (figure 1.2). Hence the population of Tbilisi accounts for about a quarter of the national total. Georgia's population in 2005 was estimated at 4.3 million.

The 2002 Population Census showed following ethnic origin composition: 83.3 per cent Georgian, 6.5 per cent Azerbaijani, 5.7 per cent Armenian, 1.5 per cent Russian, 0.9 per cent Ossetian, 0.5 per cent Kurd, 0.3 per cent Greek, 0.2 per cent Ukrainian, 0.1 per cent Abkhaz, and 0.1 per cent Jewish.

#### *Demographic trends*

Georgia experienced a considerable decrease in the population growth rate after 1989. Increased out-migration brought about by the collapse of the former Soviet Union and exacerbated by the continuing decline of the population's natural growth, had a big impact, causing both the population's total and growth rate to fall sharply.

The decrease was more evident in urban areas than in rural areas, as most emigrants come from the cities. Georgia's population structure shows the proportion of people under the age of 15 in a downward trend, dropping by one third between 1970 and 2002 from 31 to 21 per cent. The proportion of those over age 65, on the other hand, increased during the same period

#### *Migration*

The civil war and armed conflicts over the demand for independence by South Ossetia and Abkhazia that followed Georgia's independence in 1991 resulted in the loss of thousands of lives and displacement of large numbers of the population. The United Nations High Commissioner for Refugees (UNHCR) places the number of internally displaced persons (IDPs) by the end of 2005 at approximately 234,000.<sup>2</sup>

Net migration figures in Georgia have been negative since 1970, but there was no decrease in the total population until before 1990 because natural population growth more than compensated for emigration. Since 1990, however, we see a decline in the population of Georgia because the immigration and natural growth could no longer compensate for emigration (table 1.3).

Aside from forced migration, unfavourable socio-economic and political conditions in the country, continued unemployment, and education abroad are the major factors that account for the large number of people migrating from Georgia.

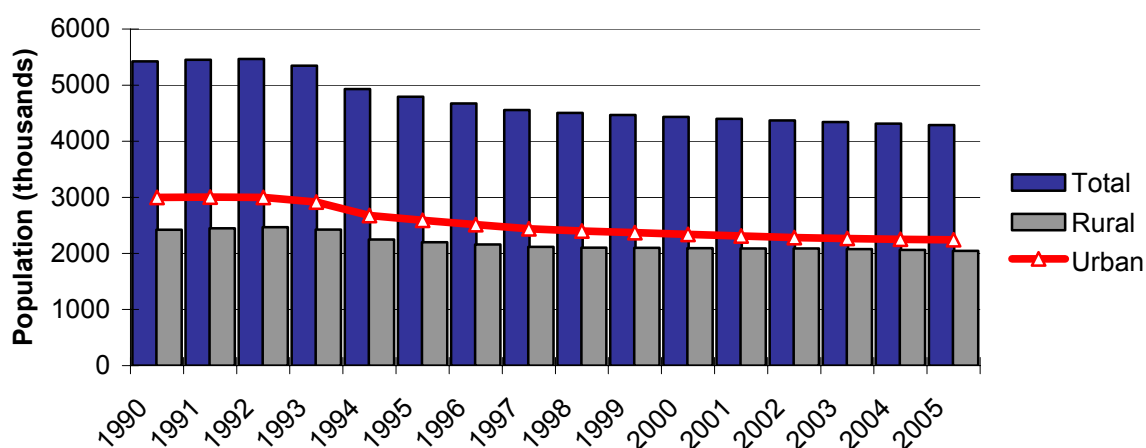
<sup>2</sup> United Nations High Commissioner for Refugees (UNHCR). Global Refugee Trends. 2006.

Table 1.2. Sector output, percent to GDP

	1995	1997	1998	1999	2000	2001	2002	2003	2004
GDP, million lari	3,694	4,555	5,022	5,669	6,043	6,674	7,456	8,564	9,970
Agricultural output, million lari	1,851	1,880	1,899	2,070	1,816	2,063	2,161	2,484	2,388
Percent to GDP	50.1	41.3	37.8	36.5	30.1	30.9	29.0	29.0	24.0
Industrial output, million lari	524	815	806	989	1,132	1,155	1,308	1,550	1,754
Percent to GDP	14.2	17.9	16.0	17.4	18.7	17.3	17.5	18.1	17.6

Source: Ministry of Economic Development of Georgia (MED). Department of Statistics. Main social and economic indicators for Georgia.

Figure 1.2. Population of Georgia



Note: Population for 1994-2005 exclude the population of Abkhazia and Tskhinvali region (South Ossetia).  
Source: MED of Georgia. Department of Statistics.

#### D. Privatization and housing policies

One component in the restructuring process that is underway in Georgia is privatization. It began in 1992 with small- and medium-sized enterprises. The current State privatization targets large-scale entities. Income derived from privatization of 267 units in 2004 amounted to 72.7 million lari.<sup>3</sup>

The privatization of the housing stock has progressed over the past decade and a half without direction and without reference to a coherent legislative framework. Indeed, in crucial areas legislation from past periods has persisted due to the inability of the new political system to enact comprehensive new laws. The Constitution of Georgia of 1995 provides that those legislative acts from the Soviet period that do not contradict

with the Constitution and that have not yet been abolished or changed remain valid. Article 106.2, however, imposed upon the President and Parliament an obligation to determine the compliance of old normative acts with the Constitution within a two-year period. This was not done. Indeed, a decree of the Minister of Urbanization and Construction of Georgia from 5 February 2002 on the *Prolongation of the Terms and Validity of Construction Norms and Rules and Other Normative Acts* actually provides that normative acts from the Soviet period shall only be abolished upon the enactment of appropriate new rules.

Many of the legislative acts that were repealed have not been replaced. In 1997, the Housing Code of the Soviet Republic of Georgia was abolished. In the same year, the *Law on the Principles of State Housing Policy* was drafted but never adopted. Many of the normative documents that have been passed have only a declarative character. Furthermore, and of perhaps greater

<sup>3</sup> Ministry of Economic Development of Georgia (MED). Department of Statistics.

Table 1.3. Demographic indicators, 1989–2004

	Resident population by 1 January (thousands)	Average annual population growth rate	Natural increase (thousands)	Net migration (thousands)	Total increase (thousands)
1989	5,401	0.79	41.0	-18	24
2000 <sup>3</sup>	4,435	-1.78	1.4	-35	-34
2001 <sup>3</sup>	4,401	-0.77	1.4	-31	-30
2002 <sup>3</sup>	4,372	-0.66	0.0	-29	-29
2003 <sup>3</sup>	4,343	-0.66	0.1	-29	-29
2004 <sup>3</sup>	4,315	-0.64	0.8	-27	-26

<sup>1</sup> 1979 – 1989.

<sup>2</sup> 1989 – 2000.

<sup>3</sup> Excluding territories not controlled by the central Government of Georgia.

Source: Ministry of Economic Development of Georgia. Department of Statistics. Social Trends in Georgia.

importance, institutions and procedures that existed have been abandoned without any replacement.

The central Government in effect transferred overall responsibility for the housing sector to the municipalities, while denying them the financial resources to maintain even the housing stock and infrastructure that remained in municipal ownership. Urban development evolved from a highly centralized, strictly hierarchical, cohesive system of planning and management to a policy vacuum. In conclusion, the result of decentralization and privatization was the transferal of property along with liabilities connected with such property to new owners by the State, without the simultaneous provision of the necessary legal and institutional support.

#### ***Privatization of the housing stock***

Privatization of housing in 1992 was not well planned and was done without an overall vision for urban development or for the future of the housing stock and the housing sector. The State failed to provide any information on ownership rights or housing management. Housing privatization was carried out without the land under the housing units and land adjacent to the housing properties being privatized.

As of 2001, approximately 90 per cent of Georgia's housing stock was privatized and about 450,000 families lived in multi-storey privatized housing. In addition to the *Civil Code* of 1997, a number of laws govern the privatization of land, housing, and enterprises, but none has the full

regulations on private ownership of multi-flat housing. The limited regulations on this type of housing that are included in the *Civil Code* are not sufficient to regulate this very important and major part of the housing stock.

Cabinet of Ministers issued *Decree No. 107 on Privatization of dwellings in the Republic of Georgia* on 1 February 1992, transferred the ownership of apartments to their residents. The free transition of houses or flats to citizens who occupy it was carried out at the municipal level, and citizens only had to pay a duty. The *Decree* failed, however, to specify the legal status of the land plots allocated under multi-flat houses, or the duties of the homeowners of multi-flat housing. The *Decree* simply foresaw that the Ministry of Urbanization and Construction would provide rules of maintenance. This has not occurred, and no law on the ownership of apartments has been passed imposing an obligation on flat owners to maintain their flats.

#### ***Privatization of land***

Perhaps the most fundamental problem impeding real estate development in general is the absence of a framework law for land ownership and use, i.e. a Land Code that clearly establishes land categories, their legal status, a procedure for the transfer of land, the principles of land management, and the status of land-use documentation. In the long term, the absence of a Land Code exacerbates problems in the creation of conditions for the rational use of land and the promotion of investment through land markets.

At present, land-related legislation merely operates, inconsistently, with two categories of land – land of agricultural designation, and land of non-agricultural designation – since no clear rules for reclassification exist. The only procedure provided by legislation for the reclassification of land is contained within the *Law on Privatization of Agricultural Land in State Ownership*; it is a decision that is made by the municipal government that must be confirmed by the Ministry.

In addition, land management in practice is hindered by the absence of the local government ownership of land. This absence has persisted despite the fact that the *Law on the Disposal of State Owned Non-Agricultural Lands* (hereinafter *Law on Disposal*) of 28 October 1998 stipulated that the Government was to submit to Parliament the draft law *On Delimiting State, Municipal, and Local Land Property* during 2000.

The privatization of urban land began in 1998 in accordance with *the Law on Disposal*, the aforementioned land encompassing all land identified legally as “non-agricultural land”. Urban land has been transferred upon the decisions of municipalities, such decisions being made without any competition, transparency or publicity. This transfer has proceeded both without the proper demarcation of land plots, and reference to either urban master plans or territorial zoning plans.

The privatization of urban land is therefore not related to the future use of the privatized plots, and privatization agreements do not contractually oblige the buyer to participate financially in building the infrastructure needed to support the future development of privatized land. Furthermore, different laws regulate the sale of State-owned land depending upon the type of land plot, i.e. the MED if the land in question has construction, and the municipal government if there is no construction.

In January 1992, the Government initiated the distribution of agricultural land to its citizens as one way of fighting poverty. The lack of adequate rules and regulations in the land distribution resulted in ownership of small (0.9 ha

per household on the average) and fragmented lands, hampering effective land use.<sup>4</sup>

As reported by the International Monetary Fund (IMF)<sup>5</sup>, 74.8 per cent of agricultural land and 2.5 million hectares of forests were still under State ownership as of 2005, although legislation supports the privatization of agricultural land.

### **E. Housing policy developments**

Several attempts have been made to initiate a housing policy framework, but so far only a limited set of general government commitments has been expressed towards the international community. They are displayed in table 1.4. However, such goals stand in contrast to the virtual absence of a government policy since Georgian independence from the Soviet Union.

In 1996, the Ministry of Urbanization and Construction elaborated a Programme for Analyses of the Current Situation of Housing and its Stimulation and Improvement. This programme took into account different aspects of housing, including legislation, State programmes, housing rehabilitation and modernization and State assistance for low-income and vulnerable people in improvement of their housing conditions. The programme was not financed and accordingly, was not carried out.<sup>6</sup>

The Economic Development and Poverty Reduction Programme (EDPRP) was developed in close consultation with the civil society, international organizations such as the United Nations Development Programme (UNDP) and UNHCR, and donor countries. The EDPRP was discussed and approved in June 2003, and the Government of Georgia committed to its implementation. The EDPRP is a comprehensive and a long-term strategy paper.<sup>7</sup>

<sup>4</sup> United Nations Economic Commission for Europe (UNECE). Land Administration Review, Georgia. 2001.

<sup>5</sup> International Monetary Fund (IMF). Country Report No. 05/113. March 2005.

<sup>6</sup> Jokhadze, N. Concept of social (government-sponsored) housing establishment and development in Georgia. 2004.

<sup>7</sup> UNCT in Georgia (adopted by the Government of Georgia). Progress Report, Economic Development and Poverty Reduction Programme. Tbilisi, 2005.



In June 2004, the Ministry of Infrastructure and Development announced a tender for the elaboration of Document on “Backgrounds of State Housing Policy”. The Ministry of Infrastructure and Development was created in February 2004 by merging two former ministries, the Ministry of Urbanization and Construction and the Ministry of Transport and Communications. In July 2004, the Ministry of Infrastructure and Development was abolished and its functions were transferred, together with the Ministry of Economy, into the new Ministry of Economic Development. The Ministry (Division of Housing Policy and Urban Infrastructure) elaborated the context of the Housing Policy to be fulfilled, studied and

evaluated by the winner consultants. After the abolishment of Ministry, Tender on State Housing Policy was rejected. No further attempts to elaborate a comprehensive housing sector policy were made.

However, the acceptance of the EDPRP principles and priorities by the new Government was reflected in strategy documents developed following the “Rose Revolution”. The government plan of 2004-2009 and the statement of the Government of Georgia at the donor conference in Brussels in June 2004 expressed the Government’s commitment to target the national development policy on overcoming poverty and achieving sustainable and rapid economic growth.

Table 1.4. Housing policy objectives and commitments

Source	Housing policy commitments, targets and indicators
Millennium Development Goals in Georgia, Progress Report for 2004-2005 (goal 7, target 16) <sup>8</sup>	<ul style="list-style-type: none"> <li>• <i>Harmonization of the housing sector with international standards, including the development of municipal (social) tenure component</i></li> <li>• <i>Elaboration of legislative framework for the housing sector, including the social housing component</i></li> <li>• <i>Elaboration of country specific habitat indicators</i></li> </ul>
Economic Development and Poverty Reduction Programme Progress Report 2005 <sup>9</sup>	<ul style="list-style-type: none"> <li>• <i>Public housing policy principles must be developed</i></li> <li>• <i>The model of social housing must be introduced as part of a single national policy on housing</i></li> <li>• <i>The legislative framework must be consolidated</i></li> <li>• <i>Modern mechanisms must be established for housing rehabilitation and management</i></li> <li>• <i>A single State database on housing must be created</i></li> </ul>
The Government’s Strategic Vision and Urgent Financing Priorities in 2004-2006 <sup>10</sup>	<ul style="list-style-type: none"> <li>• <i>Adopt social housing policies</i></li> <li>• <i>Create conditions for public/private partnerships for housing development and introduce new financing schemes (mortgage)</i></li> </ul>

<sup>8</sup> United Nations Country Team (UNCT) in Georgia (in cooperation with the Government of Georgia). Millennium Development Goals in Georgia, Progress Report for 2004-2005. Tbilisi, 2006, p. 7.

<sup>9</sup> UNCT in Georgia (adopted by the Government of Georgia). Progress Report, Economic Development and Poverty Reduction Programme. Tbilisi, 2005, pp. 22-24.

<sup>10</sup> Government of Georgia. The Government’s Strategic Vision and Urgent Financing Priorities in 2004-2006. Donors’ Conference, Brussels, 2004, p. 33.



## INSTITUTIONAL FRAMEWORK

### A. Public sector institutions

#### *National level*

Housing and urban planning issues are predominantly under the responsibility of the Department of Urbanization and Construction of the Ministry of Economic Development (MED).

Until December 2006, the Department employed 15-19 professional staff and was divided into four divisions as illustrated in figure 2.1. The division of Housing and Communal Infrastructure Policy was abolished in December 2006, reducing professional staff to 14. Each division of the department has the authority to draft legislation and programmes. Under the Ministry, there is also a Department of State Property Management Policy, which employs 13 staff and is divided into two divisions: Management of the State Property and Listing of the State Property.

As the housing sector is an interdisciplinary sphere, responsibilities related to

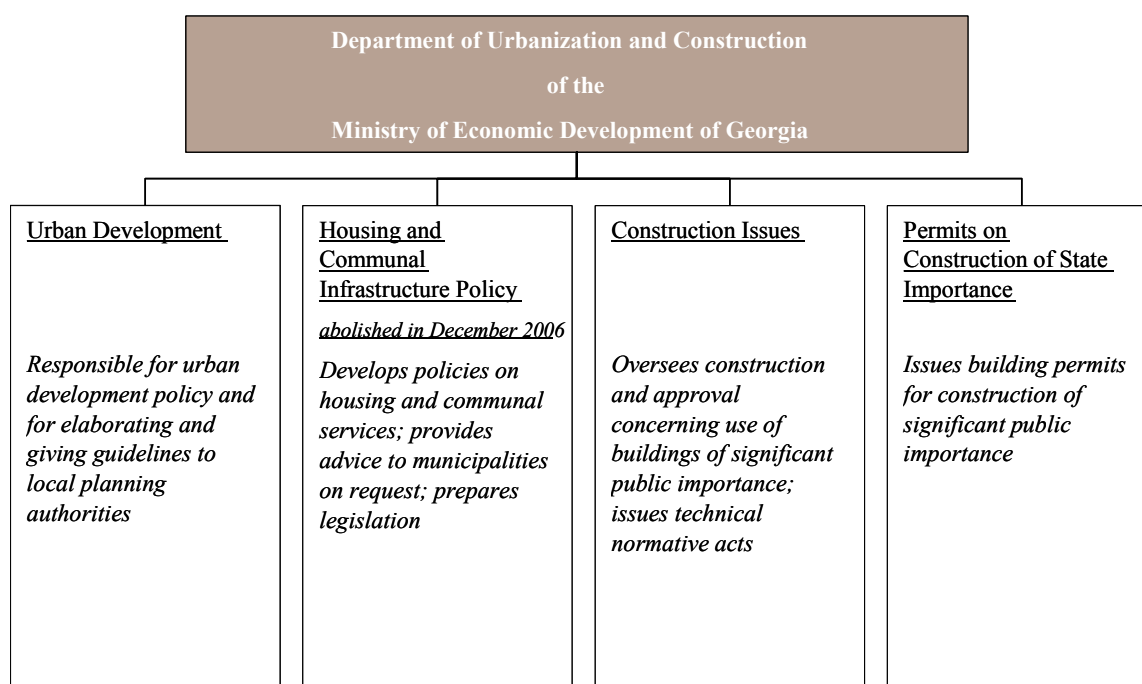
housing policy formulation and execution can also be identified within a number of other Ministries: the Ministry of Refugees and Accommodation; the Ministry of Finance; the Ministry of Labour, Health and Social Affairs; and the Ministry of Culture, Monuments Protection and Sports.

On the legislative side the following Parliamentary Committees are concerned with housing issues: Budget and Finance, Human Rights and Civil Integration, Sector Economy and Economic Policy, Regional Policy, Self-Government and the Mountainous Region, Legal Issues, and Health Care and Social Issues.

#### *Local government*

Functioning local governments are essential for the housing sector. Transparent and simple administrative structures could contribute significantly to the identification of priority issues, efficient decision-making, and the effective implementation of policy decisions at regional and local levels.

Figure 2.1. Divisions of the Department of Urbanization and Construction (up to December 2006)



### ***Local government***

Functioning local governments are essential for the housing sector. Transparent and simple administrative structures could contribute significantly to the identification of priority issues, efficient decision-making, and the effective implementation of policy decisions at regional and local levels.

Decentralization efforts were initiated in 1994, and first local elections were held in November 1998. However, the State retained control over the local self-government<sup>11</sup> through fiscal (local budgets rely mostly on direct State transfers) and institutional set-up. There were cases of control and interference by the State in the responsibilities of local government, even where the law defined otherwise.

The new *Organic Law on Local Self-Government* was adopted in December 2005, and further amended thereafter. According to the law, the status of local self-government as of 1 January 2006 is given to: (a) those cities of Georgia which are not under the subordination of the districts; (b) districts of Georgia; (c) certain settlements; such as Eredvi, Kurta, Tighvi and Azhara.

#### *The regional level*

The nine administrative regions of Georgia are shown in figure 2.2. The definition of the status of some regions has been postponed due to internal conflicts and the Constitutional provision (art. 2, para. 3) which states that: “The territorial State structure of Georgia shall be determined by a Constitutional Law on the basis of the principle of circumscription of authorization after the complete restoration of the jurisdiction of Georgia over the whole territory of the country”. Consequently, Governors of regions are being appointed by the President, whereas mayors of cities are elected.

*The middle level* of local government consists of 67 districts and six cities: Tbilisi, Kutaisi, Rustavi, Poti, Batumi and Sukhumi. The status of the capital city is defined by the *Law on*

*Capital City of Georgia – Tbilisi*, in accordance with the Constitution and the organic *Law on Local Self-Government*. The capital city now consists of six districts: Old Tbilisi, Vake-Saburtalo, Mtatsminda-Krtsanisi, Didube-Chughureti, Isani-Samgori and Gldani-Nadzaladevi, which are divided into 17 price zones for urban land (figure 2.3). Tbilisi has executive bodies at the district level (district governments - Gangeoba), a common representative body (the Sakrebulo or City Council), and a city executive government lead by the mayor.

*The self-government level* consists of settlements (self-governed cities) or groups of settlements (municipalities). Settlements could be villages, small towns (minimum 3,000 inhabitants) and cities (minimum 5,000 inhabitants). The exclusive responsibilities of self-government include land-use and territorial planning, zoning, construction permits and supervision, housing, and communal infrastructure development.

Through the *Organic Law on Local Self-Government* (December 2005), the level of local self-government has been strengthened.

A coherent territorial-administrative structure and a clearly delineated division of responsibilities between different administrative levels of that structure are prerequisites for the effective organization and functioning of public sector. In this sense, the new *Organic Law* brought about considerable progress.<sup>12</sup>

In accordance with the previous *Law on Local Government and Self-Government* of 16 October 1997 (abolished after the adoption of the new *Organic Law*), all housing issues were confirmed as being within the responsibility of local self-government, including management, maintenance and new construction.

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<sup>11</sup> See also Rekhviashvili, I. Decentralization Experience and Reforms. Case Study of Georgia. 2001.

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<sup>12</sup> Its provisions became binding with the official announcement of the results of the elections to the local self-government representative bodies held in autumn 2006.

Figure 2.2. Administrative map of Georgia



The boundaries and names shown on this map do not imply official endorsement or acceptance by the United Nations.

These responsibilities are repeated in the new *Organic Law*, together with the responsibilities of developing an overall strategy for urban development, preparing master plans, issuing construction permits and supervising construction. In order to enable local governments to implement such policies, the new *Organic Law* provides local government with the right to buy land and to be given land by the central government. Regarding the provision of social housing, local governments have a responsibility not only to provide social support for families categorized as recipients of such support, but also to provide a local reserve fund of housing. It should be noted, however, that these responsibilities are phrased as being rights and not obligations of the Government.

The reality is, however, that local governments have lacked the financial resources to fulfill their responsibilities. One attempted solution to this problem is contained within the

*Organic Law* itself, namely a reduction of the number of units of local self-government, thus allowing for the development of more viable budgets. Furthermore, the *Organic Law* stipulates that any activities not expressly stated as being in the competence of the local government can only be delegated to the local by the central Government on the condition that the delegation of responsibility is accompanied by the necessary finances.

The law *On the Local Budget* (May 2006) attempts to provide a procedure by which the local budget should be designed by the local executive body and approved by the local parliament. According to this law, budgets of local self-governments are independent, and upper levels of government may not intervene into this budget autonomy. Indeed, this law represents, in conjunction with the *Organic Law*, an attempt to create a self-financing system of local government.

The transfer of land ownership to local governments as foreseen in the *Organic Law* represents a major step forward with regards to urban planning. Previously, as a result of the fact that local governments have not owned land within their boundaries, they have only indirectly participated in the process of the privatization of State land within their boundaries, and have as a consequence been unable to play an active role in

the management of land and spatial development in urban areas. As will be addressed in the section on urban planning in chapter III, only the National Parliament in terms of passing framework legislation, and the local assembly in terms of passing local regulations, should have the authority to decide land-use issues.

Figure 2.3. Normative price zones for urban land in Tbilisi

Zone	Name	Normative price for 1 m <sup>2</sup> (GEL)	Price of rent for 1 m <sup>2</sup> (GEL)
1	Old Tbilisi	504	9.72
2	Vake	288	6.48
3	Saburtalo	218	5.71
4	Krtsanisi, Ortachala	168	5.38
5	Digomi, Didube	158	5.18
6	Didi Digomi	84	2.02
7	Chugureti	101	3.17
8	Temka, Nadzaladevi	66	2.38
9	Central Isani, Samgori	84	2.64
10	Okrokana	84	2.16
11	Tskneti	144	2.4
12	Vilg. Digomi, Mukhatgverdi	29	1.15
13	Gldani, Mukhiani	36	0.58
14	Plateau of Makhata	84	0.84
15	Didi Lilo, Patara Lilo, Aeroport	22	0.72
16	Shavnabada	50	0.5
17	Kiketi, Tsavkisi	24	0.72

**BOX 1.1. The Municipality of Gori**

*Gori, located in the Shida Kartli region, has a City Parliament with nine elected members.*

*The City employs 30 staff members and is organized in three offices: Social Affairs, Urban Infrastructure (includes urban territorial development, architecture, urban planning, renewal and protection of historical zones), and Legal Affairs.*

*The municipality had an annual budget of 600,000 lari in 2006, which was used mainly for civil servant wages, city lighting, maintenance of public squares and parks, and road repairs.*

*The municipality belongs to the Association of Local Self-Governments.*

*Gori, like most of the cities in Georgia, is a shrinking city. Its population fell from 68,000 in 1988 to about 50,000 in 2002.*

*95 per cent of the public housing has been privatized. The remaining 5 per cent is to be privatized. Common problems with the housing stock include inadequate roofs on multi-family houses, poor infrastructure, and problems with water delivery. The local government does not intervene, however, unless conditions become really bad. The city received State support for the repair of common property, such as roofs, in 2005, but not in 2006. In 2005, 16 roofs on multi-family houses were repaired.*

*About 20 homeowners' associations, resulting from the transformation of former housing cooperatives, are currently listed. In 2004, through a tender launched by the Ministry of Infrastructure and Development, urban planning documentation was elaborated for Gori, and the first stage of the preparation of a Master Plan was started. In spring 2006, the results of this work had not yet been approved by the City Parliament.*

*About 4-5 per cent of the housing stock is rental, and there are a number of empty flats, mainly due to the decreasing population. The city has neither a social housing policy nor a policy for special emergency accommodation – in such cases, families will be accommodated in hospitals.*

*Figure 2.4. Housing estates in Tbilisi and Gori*



*Problematic extension in Tbilisi*



*Historical building in Tbilisi*





*Multi-family housing in Tbilisi*



*Multi-family housing in Gori*

## B. Private sector and civil society

After the “Rose Revolution” in 2003, the fight against corruption has been a major concern of the Government, and a massive effort to combat corruption has been undertaken. Corruption in the construction sector of the public administration, where laws are not enforced in a uniform and transparent manner, is a major constraint to private sector development. In 2003, Georgia was the sixth most corrupt country on the Transparency International listing. In addition to complex administrative procedures, there are high costs for establishing and operating businesses.<sup>13</sup>

The construction industry suffers from an inadequate regulatory framework, the absence of construction norms, and the lack of a qualified workforce. Even so, private-sector and civil-society initiatives are playing an increasingly important role in Georgia’s housing sector. These are briefly characterized below.

### *Professional organizations*

**The Developers’ Association** was established some 18 months ago by eight companies which now control about 60 per cent of the private construction market. Its aims are to protect private companies’ interests, to analyse the existing situation in the construction market, to elaborate and implement its own construction standards, and to establish a code of ethics.

The Association members find that they are not perceived by public authorities as partners in discussions concerning the construction sector. Public-private partnerships are welcome, but there have been few such initiatives by public authorities. A lone example in recent years was the construction of the swimming pool in Batumi – the plot was sold by the municipality with the requirement that a swimming pool be constructed.

**The National Union of Architects of Georgia** dates back to 1931. Today it has 740 members and commissions on education and science, legislation, competitions, urban planning

and ethics, which meet every week. Every two years, a congress of all members is held. The Union’s aims are to protect the rights of architects and to provide a platform for continuous training through participation in international events and conferences. The Union is involved in the preparation of legislation for Parliament.

**The Federation of Constructors** was established in 1999 and re-registered in 2005 as a non-governmental union. It has 7,000 individual and 30 organizational members. All organizations are private and involved in construction activities. The Federation has units in the cities of Tbilisi, Rustavi, Kutaisi and Poti in addition to 33 units in districts. It is represented by its president and honorary president. Its governing board consists of 16 members, and the Chair of Board is responsible for the Federation’s juridical, financial and other governing issues. Among its 15 commissions are commissions on housing construction, on legislation, on ecology, on seismicity, and on training and education.

The main activities of the Federation include consultations and recommendations to members, legislative initiatives; technical support to members, informational support to members; and distribution of different professional materials.

**The Association of Urbanists of Georgia** was founded in 1990 and is an NGO. It has 55 members. Its main activities include the preparation of draft laws, participation in urban planning competitions and in urban development processes, consultations to Government and the population, and participation in debates concerning urban development issues. The Association elaborates projects founded by local and international organizations. It also collaborates with governmental institutions, local municipalities, NGOs, Georgian Technical University, the German Academy for Regional and City Planning and UN-HABITAT. The Association drafted several initiatives at the national level to develop a new system of urban planning.

**The Association for the Protection of Landowners’ Rights**, founded in 1996, provides legal consulting and arbitration services, and surveying.<sup>14</sup>

<sup>13</sup> Government of Georgia. The Government’s Strategic Vision and Urgent Financing Priorities in 2004-2006. Donors’ Conference, Brussels, 2004, p. 24.

<sup>14</sup> See [www.aplr.org/en](http://www.aplr.org/en).

# EXISTING HOUSING SITUATION, NEW CONSTRUCTION, URBAN PLANNING AND UTILITIES

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### A. The existing housing stock

According to analysis of data on the existing housing situation in Georgia<sup>15</sup>, the country does not differ from the average scenario in the region. Average housing space per capita was reasonable before the collapse of the Soviet Union – about 22.5 m<sup>2</sup> per capita. However, square metres do not provide an accurate picture of the quality of housing and related services. Current figures for the total housing stock are not available. Nearly 93 per cent of households in the countryside live in detached houses, whereas in the urban areas 67 per cent of the households are located in flats. These numbers are to be kept in mind when assessing the existing housing stock, as more than half of the residents of Georgia are in urban areas.

In 1989, the last Communist Government issued a legal act<sup>16</sup> permitting residents to expand their living areas by enclosing balconies, loggias and verandas or adding extensions to their apartments provided they submitted the corresponding plans for building permission. As a result, numerous structurally and aesthetically questionable extensions of blocks of flats – in a highly seismic region – were constructed.

Inhabitants erected private chimneys for fireplaces and gas-stoves on the facades of the apartment buildings, and redesigned windows and balconies. Buildings thus acquired a makeshift look, with structural extensions that exceed a building's planned dimensions. It remains to be assessed how many of these extensions were actually carried out with proper permission and

followed safety standards. Several of these “initiatives” have remained unfinished.

In general, a major part of the housing stock in Georgia – regardless of its ownership – will require massive reconstruction. At the same time, a part of the stock should be demolished due to natural structural deterioration, lack of maintenance, and the activities of residents. Some damaged houses were subject to demolition even before the 2002 earthquake, but after the earthquake the number of badly damaged houses in Tbilisi came to more than 20,000. In some districts, multi-family estates in particular entered a process of “slumization”.

### B. Housing maintenance and management

By 1999, the level of privatized housing in Tbilisi was 86.6 per cent; in 2004 the share of dwellings owned by the households was 94.5 per cent. Over 1.7 per cent of the stock was rented from private individuals. New owners of property (mainly of flats in apartment blocks) appeared overnight without the requisite experience and resources to fulfil the obligations and responsibilities of property owner in terms of managing and contributing to the maintenance of structures and facilities.

The privatization of flats was carried out without technical surveys and relevant documentation of the flats and apartment blocks. Technical conditions of the block were not considered, there being no publicly available guidelines for the new owners. The ZHEK (municipal management and maintenance company)-based system of the Soviet era was abolished without being replaced. Only a few of them were turned into service centers.

Although the *Civil Code* includes the general concepts of common ownership of land and of common parts of a building in multi-apartment buildings, there is at present, in the absence of a law on homeowners' associations, no

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<sup>15</sup> Data in this chapter are taken from the MED of Georgia, Department of Statistics unless otherwise stated.

<sup>16</sup> Normative Act no. 10.19.254. Decision on Approval of the Regulation on Building Loggias, Verandas, Balconies and Other Supplementary Spaces on Existing State and Cooperative Residential Houses Built at Residents Expense. 18.05.1989.

effective implementation of apartment owners' obligations to maintain such common space.

The organizing principle for the management of privatized housing, i.e. the concepts of homeowners' associations and the management of common property, is established by the provisions of the *Civil Code* of 1997<sup>17</sup>. The problem is not simply that the status of a homeowners' association was not clearly defined, but further that the subject of management of the common property of apartment owners was not elaborated. No clear obligation to participate in the management of common property was imposed, as the extent of such common space was also not clearly identified. It remains unclear to what extent the land plot should be registered as being in condominium ownership, and where the borders of such property should lie. These issues were left to a normative act of the Ministry of Urbanization and Construction from 2002, which attempted to provide rules for the parcelling of land between multi-apartment buildings.

The condominium form of property is recognized in paragraph 208 of the *Civil Code* of 1997 (and as subsequently amended), which also provides a basic framework for the activities of homeowners' associations, i.e. it is registered as the common land of the apartment owners. Furthermore, paragraph 219 obliges apartment owners to maintain individual and common areas of multi-apartment buildings. (Paragraph 231 imposes a financial liability on a single apartment owner towards the other apartment owners.) This is the only legislation imposing an obligation pertaining to the maintenance of multi-apartment buildings.

Paragraphs 227, 228 and 229 of the *Civil Code* provide further details on the activities of homeowners' associations. The chairman of the homeowner association must call a meeting if requested by 25 per cent of the apartment owners within one week (or else the meeting can be called by an individual owner). A meeting of the apartment owners has a quorum if it is attended by half the owners, and if the meeting is not

competent, another meeting can be called which shall be competent to take decisions regardless of the number of owners present. A decision can be taken by a simple majority (50% + 1) of those attending. The chairman is obliged to implement the decisions made and to undertake the necessary measures for proper maintenance and current repair of the common property. He is entitled to enter into contracts and demand payments from the co-owners. In reality, however, the apartment owners do not possess the financial resources – or, more importantly, access to financial resources – to pay for such maintenance, and in practice many of the apartment owners are absent and the apartments rented out.

#### ***Examples of municipal programmes for housing maintenance***

Due to legislative shortcomings, the lack of mechanisms, and insufficient public awareness for need and importance of homeowners' associations, not all privately owned multi-flat apartments have established homeowners' associations that are registered and functioning.

It should be noted, however, that over past years organizations such as the Urban Institute and GTZ (German Technical Cooperation) have offered support to the central and local governments vis-à-vis the establishment of homeowners' associations.

In the period 2001-2003, the Urban Institute was actively involved in condominium development support under the "Local Self-Government Reform" programme. Pilot projects were carried out in Zestaphoni, Ozurgeti, and Lagodekhi. As a result of these projects, about 50-60 homeowners' associations came into being. Zestaphoni is the second city after Tbilisi where the number of condominiums, in comparison with others, is high: there are now 47 condominiums registered. In 2001-2002, a project on "Establishment of Condominiums in Zestaphoni - Georgia", financed by the Urban Institute, was initiated. At the time of the project, eight condominiums were registered, of which six received the Urban Institute grant for renovation works, including renovation of roofs and drainage systems. The Urban Institute is still receiving requests for assistance and training from local authorities, but unless these activities are agreed upon by the central government, according to its

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<sup>17</sup> Civil Code 1997, part 3, article 4, paragraph 216, on the significance of homeowners' associations. The Civil Code has also converted cooperatives into homeowners' associations.

responsibility to coordinate international assistance, these projects will not be continued.

In July 2004, the city of Tbilisi has established Tbilisi Corps to implement the programme supporting the development of homeowners' associations. Tbilisi Corps is a municipal unit that employs 21 persons as well as several contract-based individuals in different parts of the city who serve as a contact between residents and the city. Tbilisi Corps assists owners in establishing homeowners' associations. With

the support of GTZ, the draft law on condominiums was elaborated, and Tbilisi Corps issued a brochure with guidelines on condominiums for owners, and holds special training sessions for association leaders.

Tbilisi Corps also offers financial assistance to established associations for renovation projects. Three major projects have been initiated, following the public-private partnership principles of financing.

Figure 3.1. Allocation of renovation projects initiated by Tbilisi Corps



\* Share of costs covered by municipality : share covered by HOA

About 80 per cent of the 6,000 lifts in the city require renovation; repair of one costs some 5,000 lari. One square metre of roofing rehabilitation costs about 13 lari.

The activities of Tbilisi Corps depend fully on the municipal budget. So far, 10 million lari have been provided from the city budget. An additional 1.5 million lari for 2006 were guaranteed, and 750-800 homeowners' associations had submitted applications for 1500-1600 renovation projects by June 2006. About 6 million lari have been spent already. Similar projects are foreseen in the future, e.g. an initiative to replace or install missing entry gates which should lock for all multi-flat housing estates. Initial work has already begun. There are currently 2,600 homeowners' associations listed in Tbilisi.

This is a useful starting point and pilot initiative for improving the situation. It is equally important, however, that follow-up activities and maintenance schemes be established to keep reconstructed roofs, lifts and pipelines in satisfactory condition for the long run. In fact, currently there is no institutional framework for maintaining the existing structures.

### C. New Construction

Since the collapse of the Soviet Union, the amount of construction work has fallen significantly, including new housing construction. As of today, this sector has not recovered much. During the years 2001-2003, the total annual number of commissioned sites in Georgia fluctuated between 400 and 500. In 2004, this number fell to 325. With 700 new apartments commissioned in 2004, construction remains weak (table 3.1). The share of sites located in Tbilisi is about two thirds.

As can be seen in table 3.1, the construction of new housing can be considered low but stable (with some fluctuations), and the private sector is currently the major actor in housing construction.

As can be seen in table 3.1, the construction of new housing can be considered low but stable (with some fluctuations), and the private sector is currently the major actor in housing construction.

Table 3.1. Construction of new housing

	Thousand m <sup>2</sup> of total floor area			Thousand apartments		
	Commissioned in total	of which by:		Commissioned in total	of which by:	
		State enterprises and organizations	Private clients		State enterprises and organizations	Private clients
1995	161	26	135	1.2	0.4	0.8
1996	148	34	114	1.1	0.4	0.7
1997	105	15	90	0.7	0.1	0.6
1998	92	21	71	0.8	0.2	0.6
1999	183	15	168	1.1	0.2	0.9
2000	213	22	191	1.4	0.2	1.2
2001	139	-	139	0.7	-	0.7
2002	222	19	203	1.1	0.2	0.9
2003	189	-	189	1.1	-	1.1
2004	139	-	139	0.7	-	0.7

Clear regional differences are visible since 2000. For example, for the private sector in 2004, 715 apartments were commissioned; of these, 253 were in the city of Tbilisi and 185 in Adjara, with significant numbers in Shida Kartli (98 units), Imereti (75 units) and Samegrelo-Zemo Svaneti (69 units). Other regions accounted for only a small number.

Analysing construction sector output, one can conclude that the construction sector in Georgia is functioning only partially. There are 684 officially listed construction companies (87 of these still State-owned) in 2004. In the same year, the number of commissioned sites was 325, in other words, an average of two sites per company.

The average turnover for a construction company for the same year amounts to only 560,000 lari. Accordingly, these average numbers are not sufficient to run a construction company efficiently.

The majority of officially listed construction entrepreneurs are not permanently employed. The absence of permanent employment does not give sufficient incentives to improve the performance of the companies, because:

- On-site work is poor due to the low quality of materials used and the fact that no investment has been made to raise the technological level of the equipment used;
- There are no standard security measures currently followed on construction sites (even by the so-called “quality” contractors), making the workplace dangerous both for workers of the contractor and third parties;
- The quality of construction work is lacking mainly due to the use of unskilled labour.

Moreover, Georgia does not have a sufficient construction materials industry – cement is partly imported from Armenia, steel from Ukraine, and finishing materials from Turkey. The prices for these major items influence the cost of construction.

The role of the construction-related professions (including architects, designers, engineers and supervisors) is currently underutilized. Developers are taking the lead through active lobbying and marketing of their services. For quality estates (for housing, business or administrative purposes), developers require qualified construction and maintenance professionals. Hence they have a major interest in increasing the level of professional training.

Courses in architecture and urban planning are currently offered by Georgia Technical University to fill this gap.

Reports indicate that developers deliver housing projects (blocks of apartments) without any finishing work as they cannot afford to damage their company's image due to the poor performance of available on-site workers. They expect the new owners to employ a team to complete these tasks and to carry the related risks accordingly.

Efforts to establish an institutional structure for developers can be considered as a positive measure in urban development. The Developers Association of Georgia is working towards creating a legal basis for development activities according to a Code of Ethics. In the new draft of the Construction Code, the developer is mentioned, but the role is not yet clearly defined.

#### ***Construction permits, supervision and licensing***

According to the *Law on Territorial Arrangement and Urban Planning* of June 2005 (hereafter *Law on Urban Planning*), development of local planning and zoning documents is the responsibility of local governments. Applications for permission to build must be submitted to the relevant local bodies (individual applications must be considered in the absence of a master plan). In order to receive a construction permit, the construction company has to present several documents, one of which is a proof of land ownership.

The planned construction is advertised for 20 days and if no objections are received, conditions for the planned construction are issued within another 10 days by the municipal architect's office. In practice, however, one problem encountered is that the construction often infringes on third-party rights, so many protests are received after the notification of construction.

The construction company then submits drawings and technical information to the municipal architect's office, which are approved within 20 days if they are drafted in accordance with the conditions provided. In the past, the construction permit had to be approved by the

body of "state expertise", which no longer exists. In reality, due to the absence of a town plan, this process takes much longer.

These regulations are set to be codified in the draft Construction Code. Indeed, the standard provisions of a Construction Code are an elaboration of the requirements for the construction of a building and for its procedure. The stated aim of the Ministry of Economic Development (MED) is to contain all such regulations with the exception of those contained within the *Law on Urban Planning* and the *Law on the Supervision of Architectural and Construction* of June 2004 (hereinafter the *Law on Supervision*) within the draft Construction Code.

Indeed, it was disclosed that the provisions of the *Law on Urban Planning* may even be included in an attempt to reduce the possibility of contradiction between these two laws and to remove any overlapping functions with regards to planning activity. A bi-product of these efforts is the fact that the Code is too specific, containing too many norms and standards.

The main idea behind the draft Construction Code is, however, to establish a small number of regional offices to issue construction permits and supervise construction. Complementing the *Organic Law*, the draft Construction Code provides that the local government should be responsible for issuing construction permits and certificates stating that a building is fit for use. Problems are expected, with the implementation of these provisions, however, given the lack of financing for local government and the absence of any enforcement mechanisms.

At present, the architect supervision body is involved neither in awarding the initial construction permit and nor in making the decision that the building is fit for use. The intention of the draft Construction Code is to elaborate upon the provisions of the *Law on Supervision*. According to this law, the Chief Architectural and Construction Inspectorate at the municipal level is empowered to inspect construction sites for violation of regulations, i.e. the implementation of construction outside the design activity without a proper license.

The Inspectorate is empowered to enter projects and demand documentation, to supervise construction, and to recommend the suspension of a construction activity license. The law provides for fines for the violation of regulations, and if the party in violation refuses to pay, the Inspectorate can request to the court to ensure that they pay.

Two problems are currently evident in practice. First, the builder is no longer certified by an accreditation body. Such an accreditation policy is hard to establish, as is the registration of specialized activities, due to the absence not only of authorized State certification bodies, but also of professional standards in general. Under the new *Law on Licensing*, the licensing of construction companies has been abolished.

The only obligation made on a construction company is that it comply with the design obligations contained in the construction permit, as issued in accordance with the provisions of the *Law on Urban Planning*. Secondly, the *Law on Supervision* does not obligate the contractor to actually supply the papers demanded by the inspection authority. Furthermore, in the event of non-compliance, local inspection authority has to obtain a court order to inspect the construction site and to stop construction. The local authority does not, however, have the ability to demolish such construction.

A building cannot be registered unless it has been certified by the local inspection authority as being fit for use. (It should be noted in regard to housing maintenance that the provision of the certificate stating that a building is fit for use includes an obligation to maintain the building.) At present, buildings that are not certified or registered are sold.

Crucially, the *Civil Code* does not impose an obligation on the homeowners to sell the building if construction stops. In an attempt to resolve the consequent problem of the incompleteness of building construction, the draft Construction Code intends to impose an obligation on the homeowners to conserve the building, i.e. to pay for the work done by the local government.

#### **D. Urban planning**

##### ***Legislative basis and recent developments in urban planning***

The existing system of spatial planning in Georgia is based on the *Law on Urban Planning*. However, most cities in the country still have master plans from Soviet period, although these are no longer relevant to current socio-economic realities. The Constitution of Georgia *de jure* established terms of legitimacy for the legislative and normative acts of Soviet period, i.e. legal acts or the parts of them that do not contradict the Constitution are legitimate. According to part II of article 106 of the Constitution, the Parliament should determine the compliance of old normative acts with the Constitution within the two-year period following the promulgation of the Constitution. However, this was only partially completed.

The Soviet era master plans were a part of a strictly centralized territorial and economic planning system. Local governments were not involved in planning, and the central government (Gosstroy) dictated planning norms. The result was unplanned and unevenly dispersed urban development. The last development plans were elaborated in the 1970 and 1980s. Since then, national and regional programmes, regional planning schemes, as well as city plans, have not been prepared.

The term for validity of most long-term master plans of Soviet period expired only in 2000. It was extended to 2004, with the Presidential Decree (February 2002) on *Prolongation of the Terms of Validity of Master Plans*.

In the 1990s, statutory acts related to urban policy were prepared on a periodical basis, e.g. the 1996 Order of the President of Georgia on *Activities Endorsing the Management of Urban Development Process City-Planning and Construction* and the 1997 "Programme and terms for open competition on the concept of urbanization of Georgia", prepared by the Association of Urbanists of Georgia for the Ministry of Urbanization and Construction. Both of these documents did not receive political support, causing major stagnation in development of urban policy.



This situation has led to the ongoing degradation of the urban environment. During the last decade, universally accepted principles of urban planning have not been followed. Instances of imbalance in the urban environment are evident, especially in Tbilisi. Regardless of the number of urban land-related normative acts, the legislative system can be characterized as sporadic and having no clear conceptual objectives.

In 2004, the Ministry of Infrastructure and Development launched the elaboration of new urban planning documentation in six Georgian cities: Batumi, Poti, Kobuleti, Kutaisi, Gori and Signagi. These plans are not approved yet, however. In Tbilisi, there is currently no active master plan; the new one is expected to be published only in 2007.

### ***Land cadastre***

A clearly discernible step forward has been the introduction of a comprehensive land cadastre, an essential foundation for urban planning<sup>18</sup>, which contains information on land and real estate. The *Civil Code* provides that the land and real estate objects are unified, and, in addition, the new *Law on State Registration* stipulates that the *cadastre* number apply not only to the land but to the building as well.

Information previously contained in the Bureau of Technical Inventory has been incorporated into the land cadastre. However, the process remains incomplete. Due to the number of illegal constructions since 1997 that were not properly registered, inaccurate information is often included in the cadastre. Moreover, since other information such as modifications of buildings has not been included in the cadastre, extracts and plans do not adequately describe reality.

### ***The role, responsibilities and powers of local governments***

As was noted in chapter II, the division of responsibility between the central and local government was not clearly defined so as to

provide a clear legal basis for spatial planning. Due to the current lack of such a definition, construction is approved without regard for urban development documentation. Proper land management was further hampered by the absence of municipal ownership of land. Municipalities, especially municipal governments, thus lacked clearly described roles and incentives vis-à-vis urban planning. However, the new *Organic Law* together with the *Law on Urban Planning* improved the legal situation.

The wide-scale privatization of real estate and urban land was accompanied by short-term political interests rather than by overall spatial planning principles. Nevertheless, the recent *Law on Urban Planning* established three layers of planning: (a) territorial arrangement of Ajara and Abkhazia (general plan and schemes); (b) territorial arrangement of district (territorial development plan); (c) urban planning of settlements (general land-use plan and regulation plans). The law requires local governments to develop two types of documentation: land-use plans and regulation plans for the construction of buildings (although the law states that if local plans exist, an overall plan does not have to be developed).

Fundamental problems remain unresolved, however. The law includes urbanized land as a category of land, but does not define what it is. Finally, the law provides that within five months of its adoption the MED has to prepare major principles for the regulation of use and development of settlement territories. This was never done. The *Law on Urban Planning* fails to provide the necessary procedures for implementing urban zoning, for carrying out public participation in the planning process, or for simplifying the process to obtain land development permits and approvals.

In November 2000, a Decree of the President requested that the mayor of Tbilisi establish the organization of a new system of territorial management before the local government elections of June 2002. Consequently, the government of Tbilisi issued *Rules for Land Use and Building Regulations for the City of Tbilisi* on 1 August 2001 (hereinafter “*Rules for Land Use*”). Regulations were introduced as existing regulations had no requirements for single parcels, a new institutional set-up had not been

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<sup>18</sup> See also UNECE, *Land Administration Review*, Georgia, 2001.

established, and transparent public participation procedures did not exist. The *Rules for Land Use* envisaged the preparation of general and detailed zoning maps for Tbilisi within nine months, as well as the establishment of a land-use and building regulation council.

### ***Illegal construction***

The shortcomings describe above in spatial planning and the lack of adequate institutional structures for planning have also resulted in illegal occupation (squatter) of land and illegal construction. There are only poor statistics for Tbilisi and other cities of Georgia, but local experts assert that the problem of illegal land occupation is becoming more and more significant.

Illegal construction is understood as being the construction of parts of a building, or of an entire building, that does not conform to existing laws, rules and norms. Most common features of illegal construction in Tbilisi are the absence of design, planning documents and construction permits.

Article 10 of the *Presidential Decree No. 874 on Activities for the Detection of the Illegalities which took place in the Use of the State Land Fund 1995-2000 and their Elimination* of 22 June 2002 instructs the Ministry of Justice of Georgia “to review the expedient issue of imposing responsibility by the Criminal Law for illegal occupation of land and to submit the appropriate project”. However, this decree has had little impact.

Legislation is still being prepared in Parliament on the legalization of informal buildings; i.e. the legalization of a construction if the building qualifies for a building permit and can be certified as fit for use. As a consequence, and in a similar vein to the problem of enforcement against incomplete construction, there is no legislative provision that allows local government to demolish an illegal construction. Local government can inspect construction activity, and in case of illegality, take action, including passing the case to the court.

Examples in Tbilisi make evident the fact that illegal construction by owners and developers can result in problematic extensions constructed by individual residents. These can pose security threats, and the problem of illegal construction, in unsuitable historic areas or not following building regulations such as proper distances between buildings, is especially critical in seismic areas such as Georgia.

### ***Heritage protection***

Some steps were taken to preserve buildings of historic interest. For example, the Ministry of Culture, Monuments Protection and Sports has prepared an inventory of all buildings of historic value of Tbilisi. The municipality of Tbilisi established the Old City Rehabilitation and Development Fund in 2005 to carry out studies for the Kala district with the aim of restoring historical buildings and developing the historic core of the city as a tourist attraction.

The Fund employs 13 professional staff and has already acquired experience with public-private partnerships where plots or buildings for demolition were offered to investors in exchange for the renovation of another building. Unfortunately, this programme only addresses physical infrastructure and not social issues, in particular the needs of the population currently inhabiting the old town. There are cases in which, in the course of housing privatization, poor residents became owners of historical buildings that urgently require repairs.

### **E. Utilities sector**

The official statistical review provides data about dwellings with different types of utilities (see table 3.2).

The capital Tbilisi shows the highest level of indicators. In urban areas, the level of provision with utilities is generally higher than in the rural ones.

The formerly widely used district central heating system collapsed. Nearly 100 per cent of households are provided with electricity, and gas has become the basic means for heating homes.

*Table 3.2. Provision of dwellings with water, energy and communications, in per cent (2004)*

	Tbilisi	Other cities	Total for urban areas	Rural areas	Total for Georgia
Cold water supply	99.1	81.7	90.6	51.6	71.1
Central system of hot water supply	1.3	0.1	0.7	0.1	0.4
Individual system of hot water supply	22.7	7.6	15.3	1.7	8.5
Electricity supply network	99.8	99.9	99.9	99.4	99.6
Central system of gas supply	59.1	19.2	39.6	3.5	21.5
Individual system of gas supply	19.1	22.5	20.8	15.0	17.9
Central system of heating <sup>19</sup>	0.5	0.2	0.4	0.2	0.3
Individual system of heating	18.1	9.7	14.0	11.6	12.8
Telephone	72.1	46.7	59.7	5.6	32.7

There is currently an urgent need to rehabilitate the national energy sector services – gas and electricity – to avoid the risk of provision problems in the short run and to secure the availability of electricity in the winter. There is evidence of power failures and gas pipes in poor technical condition.

Both the electricity and gas subsectors continue to struggle with low fee collection rates. While in Tbilisi collection of electricity bills has improved to 60-70 per cent – mainly because of the installation of meters and the imposition of sanctions – in the rest of the country only 40 per cent of customers are metered. It has been reported that in spite of these measures, collection rates are not much above 50 per cent, nor has the collection rate for gas any better. As a result, the financial condition of enterprises in the energy sector is not attractive to private investment, as losses include technical losses and theft in addition to uncollected bills. Average payments to the Georgian Wholesale Electricity Market (GWEM) are less than 30 per cent of invoice value. The shortfall in payments accounts for about \$70 million per year. Sound regulation of the activities and operations in the energy sector would reduce losses and non-payment and would improve service-quality levels and the financial condition of enterprises as well as generate funds for further

investments. These low collection rates are in great part caused by rapidly rising power tariffs that began to reflect the true cost of electricity. In the absence of adequate metering, and with a high incentive for fraud, demand for electric power has risen to excessive levels.

Burdened with such problems, Georgia's energy sector has not made much progress in privatization. The distribution company for Tbilisi was sold to AES in 1999, together with a thermal power plant. These assets are now owned by the Russian firm RAO/AES. The State-owned transmission company (Georgian State Electrosystem, GSE), the State-owned distribution company outside Tbilisi (Unified Distribution System, UDC – the largest in the country), as well as the wholesale market GWEM are under management contracts with international firms and financed by donors, including international financial institutions. In the gas subsector, enterprises remain predominantly State-owned, with fragmented arrangements for purchasing imported gas.

Under these circumstances, the energy supply to household and business consumers has been rather unreliable, with frequent and unpredictable interruptions of service. Consumers, especially outside Tbilisi, endure particularly low service levels, and power failures affect economic activity, the delivery of public and social services and the quality of life. However, electricity supply has improved since 2003 for almost all parts of the country.

<sup>19</sup> Does not include electric ovens and other traditional means of heating.

Table 3.3. Average monthly expenditure per household in 2004

	In lari			In percentage		
	Urban areas	Rural areas	Total	Urban areas	Rural areas	Total
Total cash expenditure	304.8	186.7	245.7	100	100	100
Food, alcohol, tobacco	160.4	103.0	131.6	52.6	55.2	53.6
Clothing and footwear	16.8	12.3	14.5	5.5	6.6	5.9
Household items	10.4	7.9	9.1	3.4	4.2	3.7
Health care	17.8	12.9	15.3	5.8	6.9	6.2
Fuel and electricity	27.6	16.1	21.8	9.1	8.6	8.9
Transportation	28.4	18.6	23.5	9.3	10.0	9.6
Education and recreation	9.6	3.6	6.6	3.1	1.9	2.7
Other	34.0	12.3	23.1	11.2	6.6	9.4

Following the official data, the unit prices for energy have been stable.

Table 3.3 reflects a rather unconventional budget structure for households – monthly costs for food, alcohol and tobacco constitute more than half of the total; second, transportation; and third, energy costs. The main reason for this is the not fully disclosed costs for housing, as well as the costs for water and wastewater services and for garbage collection. These are assumed to be listed along with the other expenditures. However, fees for the above-mentioned services are very low in relation to other communal fees.

In addition to energy, households require fresh water and waste management, including wastewater and garbage management. Despite the fact that Georgia has abundant water resources, the current water supply situation is complicated. It is reported that 60 per cent of existing water pipelines are faulty and sanitary and technical conditions are unsatisfactory, resulting in frequent accidents, which in turn, lead to water contamination. According to data, losses amount to 40 per cent of the overall quantity of water supplied to households.

Ironically, the water supply in Georgia is reported to be safe for drinking. At the same time, many water intakes have no protected sanitary zones. All 85 cities and districts in the country have centralized water systems; in total, there are 150 major water intakes. Drinking water is mainly drawn from ground sources. The total design capacity of the ground drinking water sources is 3.1 million m<sup>3</sup> per day. The majority of settlements in Georgia receive water with interruption. Yet there is no accurate regulation of

water produced and consumed. The situation is exacerbated by a lack of water-control laboratories. This means that supplied water often does not comply with standards or sanitary and epidemiological requirements. Most of the rural population relies on individual wells and springs, and in high mountainous areas, springs and streams.

Nonetheless, according to the reports provided, only in parts of four cities (Tbilisi, Batumi, Samtredia and Gori) is water provided 24 hours a day. In the two other large cities, Rustavi and Kutaisi, each with more than 140,000 inhabitants, supply regularity is only eight and six hours, respectively. The lowest level of supply regularity (four hours a day) is reported in Gurdjaani. Consequently, low-quality service negatively influences consumers' willingness to pay.

At one end of the scale, in Tbilisi average water household consumption is 743 litres per day. Next comes Batumi with 432 litres. On the other end, in Ozurgeti the relevant consumption level is only 37 litres. (As water consumption is not measured, findings and recommendations are based on average data.) In a western European city, average consumption is about 100 litres per day (mainly measured). Currently, there is no awareness among consumers that water is a resource.

Wastewater discharge systems operate only in 41 cities and districts, 30 of which have wastewater treatment plants with a total design capacity of 1.6 million m<sup>3</sup> per day including regional treatment facilities in the Gardabani district, which serve Tbilisi and Rustavi, with the capacity of 1 million m<sup>3</sup> per day.

As for wastewater treatment, in Tbilisi and Rustavi (two of the three largest cities of Georgia), only 74 per cent of the total volume of wastewater is treated. By contrast, in Kutaisi, the third of these cities, there is no wastewater treatment. Khashuri is the only settlement in Georgia with 100 per cent wastewater treatment. Almost all wastewater treatment facilities are in poor condition.

The most alarming problems exist in the collection and treatment of domestic sewage and industrial wastewater. The energy crises after the dissolution of the Soviet Union, together with significant electricity tariffs increases due to a lack of financing, have negatively influenced almost all wastewater treatment facilities in the country. Most wastewater treatment facilities have become disabled, and the wastewater is discharged untreated into the open bodies of water. This

contamination of water resources is the main reason for endemic intestinal and infectious disease in Georgia.

Tariffs are designed by water supply and sewage organizations, in coordination with and approved by local authorities and registered with the Ministry of Justice. There are no approved methodologies or rules for tariff calculations in Georgia. It should be noted that in some towns and settlements, in spite of the fact that local budgets are unable to subsidize household tariffs, local authorities take the population's difficult economic situation into consideration and do not allow water supply and sewage enterprises seeking cover expenditures to introduce tariffs on provision of water supply and sewage disposal services. This negatively affects the financial situation of the water supply and sewage organizations.



## AFFORDABLE HOUSING FOR VULNERABLE HOUSEHOLDS

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### A. The role of social housing

During the Soviet period, there was public and private housing in Georgia. Public housing functioned as affordable housing with subsidized rents and utilities fees for all renters. The concept of social housing was not used. Currently, around 95 per cent of the public housing stock has been privatized.

As Georgia aims to approach European standards, it is useful to look at the fundamental European legal text, the first to recognize housing, of the European Social Charter (revised).<sup>20</sup> It refers to the right to housing in Article 31: “With a view to ensuring the effective exercise of the right to housing, the Parties undertake to take measures designed:

1. To promote access to housing of an adequate standard;
2. To prevent and reduce homelessness with a view to its gradual elimination;
3. To make the price of housing accessible to those without adequate resources.”

Affordable housing should be defined as when the expenditure on adequate housing leaves a household with enough income to pay for other basic expenditures. Social housing refers to the social rental housing found in many countries.<sup>21</sup> A common feature of social housing is the existence of rules for allocating housing to benefiting households and a system of cost-price rents, not market rents. The primary role of social housing is to help vulnerable households gain access to decent housing. The problems are often financial, but they can also be connected to discrimination and other social problems.

In the Government of Georgia does not currently address questions about vulnerable households on the housing market and housing affordability in general. However, there has been a focus on spontaneous and ad hoc accommodation of internally displaced persons (IDPs), starting with the onset of internal conflicts in the beginning of the 1990s. Moreover, the development of the National IDP Strategy, launched by the Government in February 2006, was intended to provide long-term and durable tailor-made housing solutions for different categories of IDPs.

### B. Government initiatives on poverty reduction and social assistance

Target 3 of the Millennium Development Goals (MDGs) endorsed by Georgia (see chapter I) envisions the socio-economic rehabilitation of populations affected and displaced due to conflicts and natural calamities, and their full integration into society.<sup>22</sup> A number of indicators, adjusted for Georgia, have been identified to monitor the target’s implementation. Among these were: poverty indicators, income indicators (e.g. structure and size of expenditures), habitat indicators (e.g. number of rooms, ownership, total area, availability of public utilities, etc), and demographic indicators (e.g. average size, gender/age structure of the family).

The Government has reconfirmed, under Goal 7 “Ensure environmental sustainability”, Target 16 of the MDGs: the need for “harmonization of the housing sector with international standards, including the development of municipal (social) tenure component”. The Government has further committed to the elaboration of a legislative framework for the

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<sup>20</sup> Council of Europe. European Social Charter (revised). Strasbourg, 1996.

<sup>21</sup> For the concept of Social Housing, see UNECE Guidelines on Social Housing, Principles and Examples. Geneva, 2006.

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<sup>22</sup> UNCT in Georgia (in cooperation with the Government of Georgia). Millennium Development Goals in Georgia, Progress Report for 2004-2005. Tbilisi, 2006, p. 10.

housing sector, including the social housing component.<sup>23</sup> The Government's Reform and Development Programme for 2004-2009 gave priority to some sectors of the economy. Housing was not among these, however.

The Government also emphasizes the crucial role of social protection. "A low level of economic development increases the number of vulnerable people (households) and the risk of their falling under extreme poverty. 28 per cent of a poor person's income depends on the social protection system."<sup>24</sup> The social protection system, however, is not very well developed (see below).

The Government's ambitions are high when it comes to poverty alleviation: "The target to halve the proportion of people living below the poverty line by 2015 is consistent with objectives set out in Georgia's Economic Development and Poverty Reduction Programme (EDPRP). The Programme aims to reduce extreme poverty to 4 per cent, and decrease poverty estimated in relation of the official subsistence level to 20-25 per cent by 2015." The development of poverty levels has been projected up to 2015. "The poverty level has an upward trend if current conditions prevail. By 2015 the official poverty line will take in 68.2 per cent of the population and 29 per cent will be in extreme poverty. The trends demonstrate that the target to reduce poverty is unlikely to be met without substantial interventions." A large share of a household's income goes towards food. The very high food share of income diminishes the household's ability to address other urgent needs such as medical care, heating, transportation, schooling and housing (currently 7-15% of total expenditure).<sup>25</sup>

The Government of Georgia asserted that the implementation of purely economic reforms will not bring effective results, as these reforms must be supplemented by measures aimed at improving the social welfare of the population.

The Government has thus started reforming the social assistance system. The reform is fully consistent with the key principles of the social assistance programmes outlined in the EDPRP. The reform aims at improving the social and economic status of the population through extreme poverty alleviation.

The Government of Georgia has reaffirmed its commitment to developing public policy on social housing, further stating that "The model of social housing must be introduced as part of a single national policy on housing in Georgia".<sup>26</sup> However, none of the measures suggested above are mentioned in the Policy Matrix of the EDPRP for the period 2005-2007.

The key principle of the reform is the monetization of social assistance. Social assistance will no longer be oriented by certain categories of the population (e.g. invalids, war veterans, IDPs). Households will be entitled to a monthly cash benefit in place of advantages envisaged by the current legislation.

The new system of social assistance requires a specific identification method for extremely poor households, which will be the beneficiaries of this assistance. Key factors need to be highlighted which exert substantial impact on the economic status of a household, and the relative weights of these factors must be determined. Subsequently, the validity of each factor for a given household will be measured, and by using factor weights, the poverty risk of the household will be assessed. So far in 2006, only 246,000 households have been registered by this new method, which is a matter of concern to the Ministry of Labour, Health and Social Affairs.

In August 2005, through the first poverty reduction support operation to Georgia of the World Bank, the International Development Association granted Georgia a credit of \$13.5 million and special drawing rights of \$6.5 million, with the intention of supporting the Government in the implementation of reforms and priorities of

<sup>23</sup> UNCT in Georgia (in cooperation with the Government of Georgia). Millennium Development Goals in Georgia, Progress Report for 2004-2005. Tbilisi, 2006.

<sup>24</sup> Ibid, p. 21.

<sup>25</sup> Ibid, pp. 23-24. See also table 3.3.

<sup>26</sup> UNCT in Georgia (adopted by the Government of Georgia). Progress Report, Economic Development and Poverty Reduction Programme. Tbilisi, 2005, pp. 23-24.



the EDPRP. One of the areas is “improving protection, education and health-care services”.

### ***Other government initiatives***

In 2004, the Ministry of Infrastructure and Development started a discussion on the establishment and development of a social housing policy.<sup>27</sup> The study of current housing situation in the country revealed the importance and necessity for social housing policy. In particular, the following recommendations were put forward:

- Housing and social housing should be one of the pillars of State Social and Housing Policy;
- Main concepts and priorities on social housing should be elaborated at the central level of governance, and concrete programmes on local level, reflecting specifics of each city;
- The social housing programme should be supported by Government, through legislation, an institutional framework and information management;
- Financing of social housing should be defined in legislation, and legislation should define the tax policy for the subjects participating in social housing construction;
- Local social housing programmes should be harmonized with State concepts and programmes;
- Local governments should elaborate and realize policy for involving private and public sectors in social housing programmes;
- Social housing programmes need to share the other countries’ experience and need to be based on local realities;
- In creating social housing programmes, the following aspects should be taken into consideration: social isolation/segregation, empty districts, ghettos, social violence and crime. Accordingly, programmes should have the mechanisms to be protected from the above-mentioned trends;

- In implementing social housing, Government should elaborate effective and easy systems distributing subsidies, which could include, inter alia, premises for the private sector, long-term loans (mortgages) and assistance for housing associations;
- The private sector should be one of the important actors in social housing programmes.

These recommendations are very much in line with the guidelines and recommendations on social housing development that have been developed by UNECE.<sup>28</sup>

Social housing is one policy option for increasing the supply of affordable housing. This option is especially important where there is a shortage of housing in general and when it is difficult for the Government to control housing prices or rents for special groups. In other situations, subsidizing the production of new housing or subsidizing housing consumption for certain households would be an option. Housing allowances are the most common housing subsidy. Allowances have been extensively used in countries in transition, as well as in other countries and can be used in most situations when there is a housing affordability problem.<sup>29</sup> A housing allowances system for Georgia has not yet been considered by the Government.

### **C. Needs assessment for affordable housing**

#### ***Identification and description of vulnerable groups and their housing situation***

##### **Internally Displaced Persons.**

According to the United Nations High Commissioner for Refugees (UNHCR), there were 234,249 IDPs at the end of 2005.<sup>30</sup> Around 44 per cent were living in one of the more than 1,500 remaining collective accommodation centres (hospitals, schools, kindergartens, factory

<sup>27</sup> Jokhadze, N. Concept of social (Government sponsored) housing establishment and development in Georgia. 2004.

<sup>28</sup> UNECE. Guidelines on Social Housing, Principles and Examples. Geneva, 2006.

<sup>29</sup> See e.g. UNECE. Guidelines on Social Housing, Principles and Examples. Geneva, 2006.

<sup>30</sup> United Nations High Commissioner for Refugees (UNHCR). 2005 Global Refugee Trends. 2006.

buildings and hotels). Around 70 per cent of these centres do not meet minimum standards, with inadequate access to clean water, unsafe electric systems and insufficient insulation.<sup>31</sup> In general, there is a lack of data on the housing conditions of the IDPs, especially for those living outside collective centres.

In 2005, a monitoring mission from the European Commission noted in a report outlining unmet needs connected to rehabilitation of collective centres: “Roofing, heating, insulation, water supply or sanitation conditions are appalling in a number of collective centers for IDPs in Western Georgia (excluding Abkhazia), which have been devastated by many years of poor maintenance. Although much of the infrastructure throughout Georgia is in big need of repair, the extent of dilapidation in collective centres is much higher and the needs more urgent, as these are structures (schools, derelict sanatoriums) which were not meant for permanent housing.”<sup>32</sup>

Basic rehabilitation was launched in 1993-94 by UNHCR and after the 2002 earthquake, and currently a number of organizations (the International Committee of the Red Cross, the Norwegian Refugee Council, the Danish Refugee Council, Save the Children) are working in this sector. But in many places, living conditions remain far below standards, and basic repairs are urgently needed, in order to bring living conditions back to minimum acceptable standards and improve the health and psychological status of IDP populations which have been living there for 10 to 13 years.<sup>33</sup>

UNHCR recently conducted a series of participatory needs assessment in Zugdidi to identify the immediate and long-term issues facing IDPs in order to contribute to the formulation of the UNHCR strategy and programme for IDPs in Georgia. This assessment was structured around identifying the immediate needs, their solutions and the responsible entities

to address these issues. Secondly, participants were asked to consider the mid-term needs, their solutions and the entities responsible to address them.

For IDPs in collective centres, “the issue of accommodation is both about the condition of the centre and the space. As most of the families in the centre have one room, accommodating increased number of population was cited as concern. It was also noted that the compensation and privatization prospects were also acting to keep those who live in collective centres where they were, making them unwilling to move on.”<sup>34</sup>

**Other groups.** Georgia has been exposed to several natural hazards in the past, such as earthquakes, landslides and mudflows. As a result, there are many eco-migrants. In the period 1987-1999, in excess of 12,000 persons were affected. The Ministry of Refugees and Accommodation is responsible for refugees and eco-migrants, including questions of settlement and resettlement. The housing needs of other population groups, such as the homeless, the elderly, low-income families, single parents and disabled persons, also need to be taken into consideration by central and local governments.

Except for the housing situation of IDPs, there is insufficient data on housing stock and the housing situation of households. This makes it impossible to assess the general need for assistance with housing based on socio-economic and housing consumption data of households as well as data on the condition of the housing. However, the Department of Statistics is preparing a population and housing census in 2010.

One way of introducing the concept of affordable housing is to use household income as a starting point. More than 54 per cent of the population has incomes below the poverty line, and around 17 per cent has incomes under the extreme poverty line (figure 4.1). The definition of poverty line includes some expenditure connected to housing, e.g. expenditures for heating, water and sewage. But expenditures such as rent, interest on loans and amortization is not

<sup>31</sup> United Nations, Economic and Social Council, Commission on Human Rights, Mission to Georgia 21 to 24 December 2005.

<sup>32</sup> European Commission. Directorate-General for Humanitarian Aid. Humanitarian aid for the most vulnerable people of Georgia. Brussels 2005.

<sup>33</sup> Ibid, pp. 4-5.

<sup>34</sup> UNHCR. Report on Participatory Needs Assessment in Zugdidi. 2006.

included. Given that expenditures on food, clothing, medicine, etc. have priority for a household, there should be very small margins, if any, for housing expenditure for the poorest households (see also table 3.3).

*Figure 4.1. Poverty indicators, 2003*<sup>35</sup>

Percentage of population below the poverty line	54.5
Percentage of population in extreme poverty	16.6
Poverty gap ratio (official poverty)	21.1
Poverty gap ratio (extreme poverty)	5.4
Share of poorest quintile in national consumption	7.8

Source: State Department of Statistics of Georgia.

Note: Poverty line is the minimum level of consumption or income necessary for a person to meet basic needs. Poverty gap ratio is the mean distance separating the population from the poverty line (with the non-poor given the distance of zero), expressed as a percentage of the poverty line.

Share of the poorest quintile in national consumption is the income that accrues to the poorest fifth of the population.

#### **D. Support programmes connected to vulnerable households**

##### ***General support programmes***

###### *Pensions and Social Protection.*

The basic objective of the State United Social Fund of Georgia is to care for socially unprotected citizens and pensioners in Georgia. It is a legal person and covers mainly war veterans and accident victims. Support ranges from 35 lari to 84 lari per month (January 2006).

According to the Georgian State Budget of 2006, the minimal pension was determined at 38 lari as of 1 September 2006.

*Social Assistance.* The Minister of Labour, Health and Social Affairs approved “distribution rules and principles of social benefits to the needy families” for 2006. The State United Social Insurance Fund of Georgia participates financially in the programme. The aforementioned rule determined the categories of social beneficiaries and the amounts of monthly benefits, namely:

1. For single member families of unemployed pensioners, 22 lari, and for two and more member families of unemployed pensioners, 35 lari;
2. For orphan children, despite the competence of their guardians, 22 lari;
3. For unemployed persons, first group disabled people, 22 lari per person;
4. For disabled underage children, 22 lari per person;
5. For families who have seven or more underage children, 35 lari.

The social benefits programme was funded with 8.75 million lari. As of April 2006, the number of social beneficiaries numbered 72,667 families. In addition to the above benefits, the Fund pays compensation for electricity, as a fixed sum, mainly to war veterans and accident victims. The State budget provided 13.591 million lari to fund the aforementioned programme. As of April 2006, 108,573 people received the existing benefits.

##### ***Targeted support programmes for IDPs***

In 1999, there was an initiative to create a framework concept for new IDP-related policy that would concentrate on development and self-reliance. The United Nations Development Programme (UNDP), UNHCR, the United Nations Office for the Coordination of Humanitarian Affairs (OCHA), the World Bank, USAID and the Swiss Agency for Development and Cooperation (SDC) agreed to support an initiative aimed at promoting a sustainable solution of the problems faced by the IDP community. The president of Georgia established a commission to assist and monitor the process.<sup>36</sup>

The objective of the programme is to substantially improve the lives of IDPs in a manner that reduces tension between IDPs and host communities, primarily through activities that increase opportunities to access the IDPs’ full range of rights as citizens, including equality before the law and access to quality shelter, social services, and most importantly, employment opportunities.<sup>37</sup>

<sup>35</sup> UNCT in Georgia (in cooperation with the Government of Georgia). Millennium Development Goals in Georgia, Progress Report for 2004-2005. Tbilisi, 2006.

<sup>36</sup> UNDP. Working Paper on IDP Vulnerability and Economic Self-Reliance. Tbilisi, 2003, p. 4.

<sup>37</sup> UNDP. The New Approach, IDP Assistance in Georgia, p. 1.

The Georgia Self-Reliance Fund was established to test and promote pilot initiatives, *inter alia*, in the field of access to land and better housing. The Government pays 11 lari in direct financial support per person per month to those living in communal centres, and 14 lari in private accommodation. The Government also covers certain expenses for inhabitants in communal centres. The IDPs who are identified as extreme poor according to the social assistance reform will no longer receive their State allowances as IDPs, but are treated as other vulnerable households. The total expenditure transferred to IDPs is around 40 million lari.

In terms of donor contributions and activities for improving accommodation, these have mainly been concentrated in repairing and upgrading collective centres. One recent example is European Commission funding, e.g. the emergency rehabilitation of collective centres for displaced persons in 2005.

The Norwegian Refugee Council (NRC) has started a project on housing construction and renovation. In 2006, NRC planned to rehabilitate 10 collective centers and to build 10 housing units and to repair 100 housing units. A pilot programme, using housing vouchers was implemented in 2005-2006 in Kutaisi, funded by the Bureau of Population, Refugees and Migration of the U.S. State Department. The aim of the pilot project was to improve the living conditions of IDPs residing in collective centres. A housing purchase voucher is a document certifying the right of a participant to receive a subsidy to purchase housing<sup>38</sup>. This is a demand-side support, which in many cases is more cost-effective than to giving supply-side support for new housing. The result of the pilot study is that 74 per cent of the overall families who accepted vouchers (in seven collective centres) have purchased standard apartments. The donor's "hard cost per beneficiary family" averaged €3,687 during the pilot phase, for the purchase of a regular, legal apartment in a mainstream residential, multi-unit building.<sup>39</sup> However, if the vouchers did not cover the cost of housing, the

households had to add money of their own or buy houses in cheaper locations.

An alternative method of enabling households in collective centres to improve their accommodation situation has been used in Tbilisi. In two collective centres (former hotels) with 1570 IDPs, private investors paid \$7,000 per room, irrespective of the number of IDPs living in the room, for resettlement in other accommodation. A survey on the effects of the privatization shows that the living conditions of the majority of the IDPs deteriorated after they moved from the hotels. In particular, some IDPs did not receive any compensation, and not every IDP family that received compensation managed to buy a flat, as the household expenditure increased. The main advantage of the privatization was that IDPs became private owners.<sup>40</sup>

In February 2006, a Government Commission on Development of the National Strategy on IDPs was established with the objectives of: (a) developing national strategy and policy on IDPs; and (b) organizing and coordinating implementation of the developed strategy. The Commission is working in four working groups: (a) on housing, (b) on economic aspects, (c) on legal aspects and (d) on social aspects. It is very important to point out that working groups are composed of representatives of different governmental bodies (2 representatives), NGOs (1 representative) and international organizations (2 representatives). The Commission is led by the Ministry of Refugees and Accommodation. Although geared towards the specific target groups of IDPs, the strategy was expected to provide a starting point for the formulation of an overall housing policy for all vulnerable population groups, who cannot satisfy their housing needs on the existing housing market due to social exclusion or poverty. The strategy was adopted, but does not deal with housing policy to the extent initially planned. It is foreseen, however, to include housing policy issues in the resulting action plan.

<sup>38</sup> Anlian, S. Housing Purchase Vouchers, Questions and Answers. The Urban Institute. Washington D.C.

<sup>39</sup> Anlian, S. Project Status Report. The Urban Institute. Washington D.C. 2006.

<sup>40</sup> UNDP. Sociological Survey on Issues of Privatization among IDPs living in Collective Centers in Tbilisi and Tskhaltubo.

**FINANCIAL FRAMEWORK****A. Public and private investment**

Public investment in housing at the national as well as at the local level practically has ceased in recent years. At the same time the private sector was not yet capable of taking over the role as the primary source of investment. As shown in table 5.1, there was no investment of the public sector and only minor investment by the private sector in 2003 and 2004 in terms of apartments put in place. Of total dwelling space put in place (328,000 m<sup>2</sup> in 2003 and 2004), the share of State enterprises and organizations was zero, while 100 per cent was put in place by individual builders. Average floor area shows that new construction is primarily targeted towards the luxury segment of the market. Only a tiny fraction of investments went to rural areas.<sup>41</sup>

Particularly at the local government level, where the main responsibilities for the implementation of housing policies are located, financial and human resources are very tight and often sufficient only for performing basic administrative duties. The law on the *Local Budget*, however, attempts to simplify the allocation of money from the State budget to the municipal budget by providing a procedure by which the local budget is designed locally. This is of crucial importance, as local government has access to the sufficient financial resources of its own to actually exercise these responsibilities.

Previously, local governments were able to collect revenue from property tax, although they owned no land. In accordance with the law on *Payable, Non-Payable, and Capital incomes and their Distribution Among the Territorial Divisions of Georgia* of 2004, property and gaming tax is paid to local government, along with a share of personal income and profit tax, as well as non-taxable income raised in a particular municipality. Under the *Organic Law*, local governments will have the ownership of land within their boundaries transferred to them from

the central Government. However, no obligation has, been placed on local government to use income generated from sales of land for housing purposes. As an example of current practice, in Tbilisi it is the assembly of the local government that decides at what price land is to be sold at auction; this does not have to be based on the nominal price but can be based on the market price. The money raised through that land sale is transferred to the local budget, but it is not earmarked for housing purposes. In Tbilisi, revenues from land sale currently account for approximately 10 per cent of the budget.

A further drawback is the fact that there is currently no system of cadastral evaluation. Land tax is calculated in accordance with zoning regulations, i.e. different multiples of the normative value set by the municipal government. The municipal government establishes a normative value for land. This is multiplied in accordance with the zone of the city the land is situated.

In general, tax revenues both at the national and at the local level increased significantly in recent years, thus enhancing the scope for housing activities. Within the central budget, revenues more than tripled between 2001 and 2005 (from 631 million to 1.836 billion lari), and grew by 44 per cent within local budgets (from 324 to 575 million lari).

**B. Mortgages and banking market**

The mortgage sector only started to develop in the last four years and is experiencing strong growth today.<sup>42</sup> Leading banks provide mortgage loans at nominal interest rates of

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<sup>41</sup> MED. Department of Statistics. Statistical Yearbook 2005, p. 231.

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<sup>42</sup> Statistics on the total amount of mortgages are not available, as banks do not differentiate mortgages from other credits in their balance sheets; however, it is estimated that approximately 60 per cent of banks' total credit portfolio is secured by real estate (Georgia Enterprise Growth Initiative, p. 2). There is also a lack of statistics on construction and land development loans.

Table 5.1. Number and average floor area of apartments put in place by the public and private sectors

Years	Public sector		Private sector	
	Number of apartments (in 1,000)	Average floor area of one apartment, m <sup>2</sup>	Number of apartments (in 1,000)	Average floor area of one apartment, m <sup>2</sup>
1995	0.4	76	0.8	160
1996	0.4	81	0.7	157
1997	0.1	101	0.6	144
1998	0.2	112	0.6	125
1999	0.2	83	0.9	194
2000	0.2	152	1.2	166
2001	-	-	0.7	201
2002	0.2	95	0.9	163
2003	-	-	1.1	211
2004	-	-	0.7	194

between 13 and 20 per cent<sup>43</sup> and offer an increasingly differentiated product range. Longer maturities (10 years and even more) become available. Major banks offering mortgages are TBC Bank, Bank of Georgia and ProCredit Bank. Bank of Georgia's mortgage portfolio, for instance, increased by 137 per cent in 2005.

Previously, agreements between households and construction companies were common in which households made a down payment and were allowed to pay off the purchase price through installments at no interest. However, these agreements had maximal maturities of 18-24 months and finished when the purchaser moved in. Moreover, they were perceived to be very risky, as there is anecdotal evidence of fraud, so that the development of the formal mortgage market is clearly preferable.

In practical terms, with regards to the provision of a secure title for creditors financing construction at the beginning of the construction process, there is a separate title to the land against which the construction company takes a corporate loan (the future apartment owners make an unsecured down payment before the title is registered although a contract is registered with the construction company that is notarized).

When the foundation is laid then the building is registered as under construction and the title is registered in the name of the future apartment owners, i.e. a building under construction can be registered in the Real Estate Registry upon the construction of the foundation with this title being offered as collateral by the "future" homeowners to the bank. This system appears to be working in practice, although loans are only extended to construction companies and homeowners whose income provides the bank with security.

<sup>43</sup> Average consumer price inflation for the period 2003-2005 was 6.2 per cent. See Economist Intelligence Unit. Country Report, Georgia 2006, p. 5.

Affordability of mortgage loans remains limited, as real interest rates are relatively high, and as a minimum salary of around \$400 is

required to apply for a mortgage loan with most banks. The threshold varies according to the number of family members who are dependent on the given income and who could participate in covering the loan.

Prices for a one-room flat of 25 m<sup>2</sup> in the centre of Tbilisi have risen to \$30,000-45,000 in the last few years, starting from less than \$10,000 in the year 2000. The reasons for this increase are initial low prices, strong demand from Georgians living abroad, higher prices for imported building materials, and the speculative attraction of the real estate sector due to its expected growth potential.

The price for an equal apartment in the suburbs is now \$15,000-20,000. Table 5.2 shows the calculation of monthly installments for selected loan amounts and interest rates. Obviously, only a small percentage of the population can afford such transactions.

The practice of over-collateralization – with banks taking in the double or even triple loan amount as collateral – is about to cease. Average loan-to-value ratios are reported to be between 60 and 80 per cent in most cases. Application procedures are still quite bureaucratic and vary widely among banks. Documentation requirements often include proofs of stable income, visits at the borrower's workplace and a recommendation by his/her supervisor.

*Table 5.2. Monthly installments (in \$ for a maturity of 10 years)*

Interest rate / Loan amount	14.5%	16 %	18 %
	\$10,000	158	167
\$15,000	237	251	270
\$25,000	396	419	450
\$30,000	475	503	541
\$45,000	712	754	811

Source: TBC Bank

Although the mortgage segment of the financial market is expanding rapidly, a number legal concerns limit further development. A crucial problem is that foreclosure reportedly may

take up to several years in practice, especially when court decisions are involved. The main issues of concern are related to the Civil Law and were carefully identified in a project conducted by the Georgia Enterprise Growth Initiative (GEGI). Amendments to these provisions stand to make loan repayment and the sale of foreclosed property more flexible, consequently removing barriers to mortgage lending. Some legal limitations are summarized in the following.<sup>44</sup>

1. According to the *Civil Code* (art. 303), *if the debtor resides alone or with a family in the building or in the part of the building which is encumbered with a mortgage, then he is entitled to stay therein as a tenant (after foreclosure sale) and is obliged to pay rent at the market rate to the acquirer of the property.* Thus, if the collateral of a loan issued by a lender is an apartment, it becomes virtually impossible to remove the resident(s) from the building. Therefore, through the first court hearing, the lender has to obtain the right to sell the mortgaged apartment through an auction which requires a minimum of one year under the current procedural legislation. Afterwards, the lender has to deal with the tenant based on a rental agreement. If the tenant violates the conditions of the rental agreement or if the lender has sound reasons that may become a basis for revoking the rental agreement, a new court case has to be initiated. Then after the passage of one more year, it may be possible to remove the tenants from the apartment. These problems can be resolved through modification of the mentioned article or through its elimination from *Civil Code*.
2. According to the *Civil Code* (art. 278), *the foreclosure shall be executed through the sale of the collateral at auction.* At the moment, only the courts are entitled to hold an auction. Existing legislation does not provide for holding auctions without a court decision. For this reason, lenders have to apply to the courts with the plea. Such pleas, as a rule, are

<sup>44</sup> For a detailed compilation of provisions in the Civil Code, the Civil Procedures Code and the Law on Commercial Banks, see Georgia Enterprise Growth Initiative. Survey of Mortgage Lenders on Lending Problems. 2005.

generally appealed by the debtor in most instances. This is a lengthy procedure, and in most cases the property undergoes physical depreciation, and the proceeds obtained through its sales often fail to cover the principal and interest amount. Therefore, it would be expedient if the law specifies the auctioning mechanism or enables lenders to sell property without auctioning.

3. According to the Civil Procedures Code, *the courts shall examine the civil cases not later than two months following the day of filing the application*. For especially complicated cases, this term may be extended for not more than five months. Existing practice shows that courts exercise their rights to the maximum capacity. If courts of all instances, (regional, district and Supreme) apply this right to examine the case after five months following the day of application filling, the case may be completed after 15 months and only after this term the lengthy process of execution begins. Therefore, it is advisable to reduce the term between filling the application and examining the civil cases by courts.

Resolution of these issues and amendments to the relevant laws will address the problems of each lender on the financial market. These problems are common for all financial institutions and therefore, their settlement is critical.

Furthermore, it is important to note that no certified real estate appraisal system exists in Georgia. This could define and facilitate valuation and inspection procedures and strengthen the basis of the mortgage sector and the real estate market as a whole. Currently, the value of land is deliberately undervalued when it is mortgaged, a practice that continues unhindered in the absence of a law on Valuation.

With respect to land and real estate registration, this is governed by the amended *Civil Code* and the 2006 *Law on State Registration*, which provides that ownership rights are recognized only if registered. Only registered rights can be officially sold, leased, or used as collateral. Although the amended *Civil Code* imposes an obligation to register a transfer of real estate in the real estate registry, its introduction represents step back in terms of establishing a complete public registry of titles. Under the first

edition of the *Civil Code*, transactions were annulled if they were not registered within three months; under the new *Civil Code*, fines are simply imposed.

The new *Law on State Registration* (passed in March 2006 and entered into force in June 2006) promises to remove some of the problems experienced due to the provisions of the old *Law on State Registration* of 1996. In the 1996 law, if a technical mistake had been made during the registration process, the registration could only be amended by a court decision. In the new law the mistake can be rectified by simply notifying the owner.

The problem remains, however, of people paying for purchase after signing the agreement at the notary office, thereby creating the possibility of dual registration. To deal with this problem, the validity of an extract from the cadastre has been reduced from one month to 10 days. This does not erase the possibility of two notarized agreements coexisting thus suggesting the need for a centralized database for notaries.

### ***Banking sector***

The Ministry of Finance and the National Bank, as supervisory authorities, are attempting to develop the banking market as a whole.<sup>45</sup> Almost 99 per cent of the financial intermediation in Georgia is done through the banking system, whereas securities markets play a marginal role.

After independence, the transformation of the banking system started: a two-tiered universal banking system was established, with the National Bank of Georgia (NBG) as the regulating authority (*Organic Law on the National Bank of Georgia*, 1995) and a network of commercial banks originating from the privatization of State banks.

However, banking legislation was imperfect and licensing requirements for commercial banks too weak (e.g. the minimal statutory capital to establish a bank in 1994 was approximately \$500). As a result, the number of banking institutions increased from five in 1991 to

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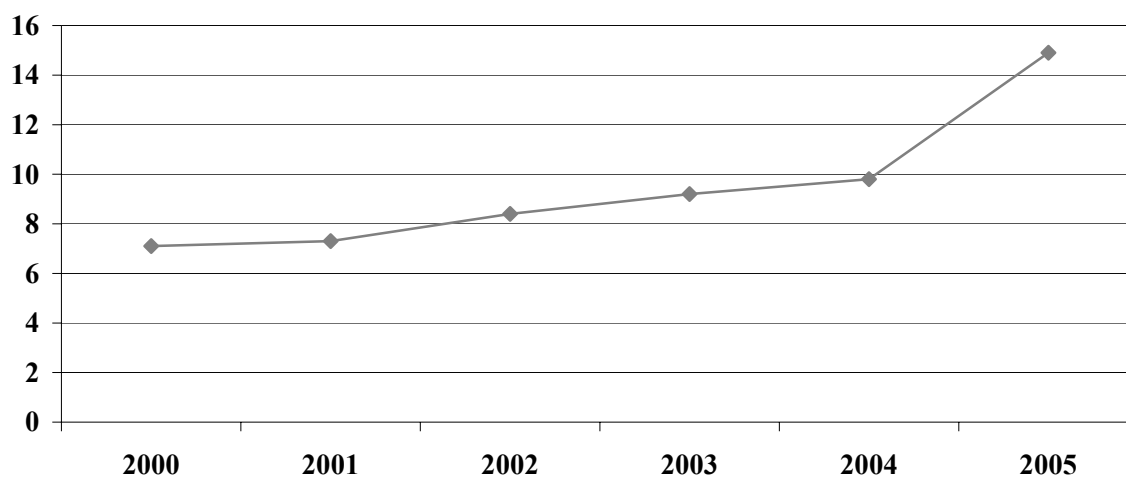
<sup>45</sup> National Bank of Georgia. Georgian Banking System Development Strategy for 2006-09.



226 in 1994, most of them facing financial difficulties. Confidence in the banking sector vanished, and the volume of deposits dropped to almost zero. From 1995-1996 onwards, the National Bank of Georgia in cooperation with international institutions, tightened banking regulation and licensing (chapter II of *Law on Activities of Commercial Banks*, 1996) and

reduced the number of commercial banks by 173 up to 1997. From then on, banking activities experienced strong growth. Gross assets of the banking sector as of December 2005 accounted to 2.54 billion lari (a growth of 50 % during 2005). Credits grew by 85 per cent in the same period, and the ratio of loans to GDP more than doubled between 2000 and 2005 (figure 5.1).

Figure 5.1. Ratio of loans against GDP (%), 2000-2005



The dollarization of loans is decreasing significantly, and the participation of foreign financial institutions reached a level of around 50 per cent of capital of resident commercial banks owned by foreign institutions as of 31 December 2005. Concentration in the banking sector is high, with a group of six large banks holding 87 per cent of total assets of the banking system. The banking sector is fairly profitable, with an average Return on Equity of 14.9 per cent. During 2005, deposits attracted grew by 31 per cent, reflecting a resumption of confidence. Two Georgian banks have been awarded credit rating B

by Fitch (the country was awarded a long-term sovereign credit rating of B+ – with a positive trend – in December 2005).

Long-term refinancing facilities, however, especially from local sources, are limited. In 2004, TBC Bank had total liabilities of 331 million lari, of which 86 per cent consisted of current accounts and time deposits owed to customers<sup>46</sup>, thus constraining the ability for long-term lending. For ProCredit Bank, 93 per cent of total liabilities showed maturities of less than 12 months in 2005.<sup>47</sup>

<sup>46</sup> TBC Bank. Annual Report 2004, p. 74.

<sup>47</sup> ProCredit Bank. Annual Report 2005, p. 55.



### RECOMMENDATIONS

#### Recommendations – Housing policy framework

##### Recommendation 1

*Greater political priority should be attached to the housing sector*

*It should be recognized that the development of the housing sector could considerably contribute to economic growth, employment and poverty reduction. This stimulation could result both from the direct effects of new construction and indirect reconstruction and repair activities, as well as the*

*effects on other sectors of the economy such as building materials, craft, utilities and housing services. Housing policy should be fully integrated into overall socio-economic development policy.*

##### Recommendation 2

*A national housing strategy should be elaborated.*

*Although housing stock is considered as privately owned, the Government retains the overall policy responsibility for this sector of the economy. The development and implementation of the housing strategy should therefore be led by the Ministry responsible for housing policies, the current Ministry of Economic Development, and should involve other Ministries such as Refugees and Accommodation; Justice; Finance; and Culture, Monuments Protection and Sport, as well as authorities at the municipal level. Policy commitments, as set out in the national Millennium Development Goals progress report<sup>48</sup>, the EDRP Progress Report<sup>49</sup> and the Government's Strategic Vision<sup>50</sup>, can constitute a good basis to this end. The strategy should be based on an overall assessment of the housing situation and the housing needs of the population,*

*including the collection of concise statistical data, and should:*

*(a) Establish an action plan with priority areas and timescale, defined policy goals and ways to achieve them;*

*(b) Set the framework for the collaboration with the private sector. Within this, the State should act as the facilitator and provider of legislation, should "kick-start" market mechanisms where they are not yet functioning, and should help the housing market to work, whereas the private sector is the main source of investments;*

*(c) Address the institutional framework, reconstruction, maintenance and management of the existing housing stock, including the preservation of historical buildings, new construction, urban planning, regional balance (including secondary cities and rural areas), affordable housing for low-income households, and the legal and financial framework as outlined in the following recommendations.*

<sup>48</sup> UNCT in Georgia, Millennium Development Goals in Georgia, Progress Report for 2004-05. 2006.

<sup>49</sup> UNCT in Georgia (adopted by the Government of Georgia). Progress Report, Economic Development and Poverty Reduction Programme. Tbilisi, 2005.

<sup>50</sup> Government of Georgia. The Government's Strategic Vision and Urgent Financing Priorities in 2004-2006. Donors' Conference, Brussels, 2004.

### Recommendation 3

*Housing policies should be implemented by involving international donors and NGOs.*

*Existing projects should be extended and pilot projects proposals should be developed to serve as examples and to trigger multiplier effects for*

*developing housing policies further, following the priorities set out in the housing policy framework.*

## **Recommendations – Institutional framework**

### National level

#### Recommendation 4

*The capacity of the Ministry responsible for housing should be strengthened.*

*The department dealing with housing in the responsible Ministry, currently the Ministry of Economic Development, should be provided with a clear mandate and increased staffing with*

*adequate expertise and clear responsibilities to have an impact on the housing sector and its policies.*

#### Recommendation 5

*The cooperation between different Ministries and stakeholders in the field of urban development, housing, and construction, under the lead of the MED, should be intensified.*

*Establishing a Working Group to develop the housing strategy could ensure better coordination. The experience currently made with the elaboration of the IDP strategy should be used and extended. The Working Group should be*

*composed of members from ministries and representatives from local governments, NGOs and the private sector, and assisted by international organizations as required.*

### Local government

#### Recommendation 6

*Responsibilities of local authorities related to housing should be clearly defined.*

*In particular, the following functions should be carried out locally:*

*(a) Development of local housing policies (including affordable housing) which are in accordance with general State housing policy and approved spatial development plans; the process should ensure stakeholders consultations;*

*(b) Provision of effective and efficient management of housing and property in local ownership;*

*(c) Establishment of the framework for creation and monitoring the work of local housing organizations and international organizations, including donor organizations;*

*(d) Ensure that the use of land in proposed projects is in accordance with approved land-use plans rests solely with the local authority's planning department.*

### Recommendation 7

*The responsibilities of local governments related to housing should be reflected in their organizational structure.*

*Provided that with the new legislation on local self-government local units will have increased financial means, own property and adequate staff, their structure should foresee or strengthen departments dealing with and providing policies for:*

(a) *Urban planning and construction (permits, standards, monitoring);*

(b) *Reconstruction and maintenance of the existing housing stock;*

(c) *Utilities (energy, water, waste);*

(d) *Social policy, including affordable housing (according to chapter 3 of the Law on local self-government).*

### Recommendation 8

*Tailored training activities for local employees should be scheduled.*

*The sessions or workshops should particularly provide knowledge and good practices on, and based on, existing pilot projects:*

(a) *Homeowners' associations;*

(b) *Affordable housing policy options;*

(c) *Public-private partnerships;*

(d) *Strategic planning, project management and monitoring;*

(e) *Fund-raising and budgeting.*

## **Recommendations – Existing Housing Situation, New Construction, Urban Planning and Utilities**

### Existing Housing Situation

### Recommendation 9

*Priority should be assigned to the reconstruction, renovation and management of the already existing housing stock rather than to new housing construction.*

*The most favourable housing reconstruction schemes for the different regions and the different segments of the housing stock (mass housing, historical buildings, detached houses) should be identified. Most of the residents cannot afford reconstruction of the main structures of the buildings. Therefore surveys should be conducted – led by local governments – to include scale, chronology and financial requirements of reconstruction steps. This should be followed by a coordination procedure on how to involve different stakeholders (residents, private-sector*

*investors, international organizations, national and local Governments) in carrying out and financing the reconstruction activities. The general principle should be that the ultimate priority would be the long-term structural stability of the building. If this aim cannot be achieved, the building should not be preserved (with the exception of historical buildings where no universal rules cannot be followed). When preservation is possible, potential energy saving measures should be applied.*

### Recommendation 10

*Central and local governments should collect comprehensive information about the existing housing stock.*

*The Ministry of Economic Development should initiate a project for building up and updating a database of housing statistics. The Ministry should seek assistance from national and international professionals. These activities should be coordinated with the preparations for the population and housing census that is planned for 2010. In particular, information has to cover the following areas:*

*(a) Data reflecting basic statistical information about housing such as square metres per person, availability of amenities, tenure structure etc. The development of this database should not rely entirely on existing documents and data, as there have been so many resident initiative-based constructions carried out. The authorities should conduct a full inventory of the actual housing stock.*

*(b) Technical information about the existing stock, including information on physical deterioration that has caused important damage to the structures, especially for the blocks of flats and on all extensions and illegal construction.*

*The Department of Statistics should become the administrator of this information system, but the municipalities should be in charge of collecting the relevant data. For this purpose, they should receive financial means from central authorities. The collected data should serve as the basis for national and local housing policies and spatial development plans. Public access for researchers, real estate investors, construction companies, NGOs and other interested groups should be granted in order to disseminate information and foster public debate on housing issues.*

### Recommendation 11

*The preparation of legislation on the future of illegal buildings and structures should be initiated.*

*Legalization is advised if the building in question could qualify for a building permit and be certified as fit for use under certain conditions. At the same time, it should be kept in mind that not all the illegally built buildings and structures can be removed due to high costs and additional hazards caused for adjacent buildings. Legislation, taking into account the following basic principles, should be adopted:*

*(a) In cases where the owners of the flats have built the illegal extensions and additions in good faith, following the rules set out by Government, these extensions should be legalized. The owners of these extensions should be made responsible for additional costs to upgrade these parts of the buildings when the structures do not meet safety and stability requirements.*

*(b) In the case of illegal developments which contradict the planning requirements and where construction permission has been refused,*

*the owners are to be taken individually. The owner of the building or structure will be responsible for the costs incurred by the public.*

*(c) Abandoned and unfinished buildings and structures, where no owners can be identified, should be systematically surveyed to propose the most feasible scenario – either demolition, public use, or sale to private ownership with certain possible restrictions for the future. Incentive schemes for the private sector for the completion of unfinished construction should be offered for a limited period of time before considering other measures.*

*For the three basic cases distinguished above exact procedures are to be defined. Local Authorities are to become the key actors in the enforcement and should also be involved in the formulation of procedures.*

*Management and maintenance*

## Recommendation 12

*Housing maintenance schemes should be designed and launched.*

*Individual and private-sector initiatives, when organizing provision of maintenance services, are to be encouraged, especially by the municipalities, but the municipalities must not*

*become involved in direct provision of maintenance services. Competitive bidding procedures should be used in order to attract private maintenance companies.*

## Recommendation 13

*A law on homeowners' associations should be adopted.*

*For contractual relations with private companies supplying maintenance and management services homeowners' associations must be able both to benefit from, and to be liable under, all the contractual and financial arrangements that they enter which provide them with access to such services. At present, in accordance with the Civil Code, homeowners do not have an obligation that may be practically enforced to contribute*

*towards the maintenance of the building they occupy. If, therefore, a homeowners' association is to become a legal entity, with all its participants jointly responsible for the associations' liabilities, a form of limited liability has to be introduced. While preparing the new legislation, full use should be made of the UNECE Guidelines on Condominium Ownership of Housing for Countries in Transition.<sup>51</sup>*

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<sup>51</sup> UNECE. Guidelines on Condominium Ownership of Housing for Countries in Transition. Geneva, 2003.

#### Recommendation 14

*Governmental support for the further establishment of homeowners' associations should be provided.*

*Although current legislation poses an obligation to set up homeowners' associations (HOAs), their further establishment requires both financial as well as organizational support by central and local governments. Awareness raising campaigns among homeowners as well as training sessions for HOA chairpersons and local government officials should be continued. Existing experience and good practice (e.g. Tbilisi Corps) should be replicated and promoted throughout the country.*

*To this end, further international assistance should be sought from, inter alia, organizations that have already been providing such assistance such as USAID and GTZ, and the lessons learned should be used. It can be expected that support for further creation of HOAs will stimulate the maintenance works and at the same time provide employment to professionals and specialists and thus can contribute to decreasing unemployment.*

#### New Construction

#### Recommendation 15

*Principles for national construction norms should be adopted.*

*Civil engineers and construction experts have to decide which set of construction norms is to be applied. Georgia has had long tradition of using the Soviet construction norms and rules (SNiP). Now, local construction norms should be developed, which take into account international experience, especially related to climatic and seismic conditions. Alternatively, a fixed set of*

*construction norms might be chosen as a model, e.g. Euronorms. It is recommended that the engineers, together with their professional associations and academic institutions elaborate the most suitable normative system – including the certification of construction materials – according to the national requirements (e.g. seismic conditions) and interests.*

#### Recommendation 16

*The draft Construction Code should be rethought and adopted.*

*A construction code should clearly state the requirements and procedures to be met for building construction. In addition, a general system of national requirements for on-site health and safety measures and the independent technical supervision of construction sites should be identified in a construction code, then developed in subordinate legislation. As a result of an attempt to reduce the possibility of*

*contradiction between the Law on Spatial Planning and the Law on the Supervision of Architectural and Construction and the draft Construction Code, and to remove any overlapping functions with regard to planning activity, parts of the draft Construction Code are too specified, containing too many norms and standards. It should therefore be rethought before adoption.*

#### Recommendation 17

*Education and training of construction professionals and workers should be improved.*

*Construction professionals require excellent technical knowledge. Bachelor graduates are not sufficiently qualified for such tasks. Five-year*

*academic studies should therefore become compulsory for those acting as managers or experts in the sector. The Georgian civil*



*engineering professionals should renew their code of ethics and introduce up-to-date training schemes. Moreover, new generations of on-site workers are to be trained to be able to handle new*

*materials and instruments, which require skilled and responsible workers. The reintroduction of secondary technical colleges should be considered.*

### Urban Planning

#### Recommendation 18

*Adequate urban planning documentation should be developed.*

*Currently, there is no sufficient awareness of the necessity of urban plans as effective instruments for land management by State and local governments to control urban development and preserve historical areas. The Law on Spatial Planning should provide the necessary procedures for the implementation of urban zoning techniques, public participation in the*

*planning process, and simplification for obtaining land-use and development permits and approvals. Projects that were launched in several cities should be finalized and evaluated in order to derive lessons learned. The resulting experience should be shared with other cities. Workshops for municipal officials on spatial planning should be considered.*

#### Recommendation 19

*A comprehensive Land Code should be drafted.*

*A legislative framework for the effective use of land and for the promotion of real estate development needs to be established, in which*

*land is categorized in accordance with its prescribed purpose.*

#### Recommendation 20

*The role of municipalities in urban planning has to be strengthened.*

*Local governments have to balance public and private interests. This is of special importance as Georgia is aiming to join the European Charter on Local-Self Government, and in accordance with the Organic Law, urban and spatial planning will be in the exclusive competence of local government and therefore enable it to acquire the responsibility in this sector. Municipalities should involve locally available expertise in developing the urban planning framework. A number of*

*NGOs which represent those groups in society are interested in creating clear and transparent rules in planning and land use, notably owners of land, professional planners, developers and urbanists, e.g. the Association of Urbanists, the Union of Architects, the Federation of Constructors, the Developers Association, and the Association for Protection of Landowners' Rights.*

#### Recommendation 21

*Measures should to be taken to prevent new illegal construction.*

*Existing laws need to be enforced to assure the efficiency of future urban plans. Legislation on the legalization of illegal construction should be*

*adopted. Competent municipal bodies should be given the authority to destroy an illegal construction if deemed necessary.*

### Recommendation 22

*Efforts to preserve historical buildings and districts should be continued and strengthened.*

*Initiatives such as the establishment of the Old City Rehabilitation and Development Fund in Tbilisi should be extended and linked with an*

*overall conceptual framework for the preservation of historical and cultural heritage.*

### Utilities

### Recommendation 23

*Central Government should formulate standards and objectives for the utilities sector.*

*The development of reasonable standards, requirements and objectives for the utilities sector at the national level is recommended. These utility standards could be elaborated as part of the national housing strategy and be dealt with in the same cross-sectoral and interministerial*

*Working Group. It should set priorities for the development of national and regional utility networks and with regard to the coordination of investment activities. Municipalities should be involved in adapting utility services to local peculiarities.*

### Recommendation 24

*Separate per household metering and fee collection should be intensified.*

*All utilities subsectors lack systems to control consumption. It is therefore required to increase collection rates by improving metering and distribution controls:*

*(a) Services provided need to be metered. In water provision the actual consumption should be quantified per flat if adequate calculation methodologies can be*

*provided. Losses of resources provided by the utility services should be reduced.*

*(b) Bills provided to customers should be transparent. Payments should be organized on a regular basis, and different methods of payment (e.g. cash, bank transaction) should be available for the consumer.*

### Recommendation 25

*Utility infrastructure projects being carried out together with international organizations should be continued and expanded.*

*(a) Wastewater treatment systems need to be redeveloped throughout the country. Currently, based on the amounts of water used, pollution by constant flows of wastewater will increase.*

*(b) Power generation facilities (e.g. hydroelectric power stations, thermal power*

*stations) are unevenly distributed across the country. Their generation reliability is low due to the extent of technological deterioration of plants and equipments. The Georgian electric power sector is not able to provide the consumer with secure supply of energy. Lines and wires are to be fully adjusted to higher consumption levels, which are currently growing throughout the country.*

## **Recommendations – Affordable housing for vulnerable households**

### Recommendation 26

*Housing policy should define instruments for the provision of affordable housing to all socially vulnerable households.*

*For housing needs that cannot be met on the market, e.g. housing needs for low-income households, eco-migrants, the elderly, unemployed, single parents or disabled persons, specific policy instruments should be established, taking into account the findings of the UNECE Guidelines on Social Housing (2006). At the same time, the government should clearly define the responsibilities of the central and local governments for the supply of housing for vulnerable population groups. Affordable housing*

*should be an integral part of the socio-economic development strategy, poverty reduction, unemployment policies, and overall housing policy. The development of social housing, i.e. subsidized housing, might be considered as a safety net for low-income households, unable to attain a decent housing situation through the ordinary housing market. The government should avoid developing special solutions for housing for IDPs in order to promote social cohesion and avoid social segregation.*

### Recommendation 27

*A housing needs assessment should be initiated.*

*The needs assessment should primarily focus on housing conditions for households under the extreme poverty line. It could be based on the same methodology as the needs assessment for social support, which has been introduced recently, and have a focus on need for housing support, including need for adequate shelter on*

*one hand and the household's financial means on the other hand. The needs assessment should be followed up by recommendations for dealing with housing repair and maintenance for the most urgent needs, as well as financial assistance for housing related expenditure.*

### Recommendation 28

*Incentives for the private sector to increase the supply of low cost housing should be developed.*

*The private sector should be encouraged through adequate mechanisms and incentives to increase the provision of low-cost housing, either alone or through public-private partnerships. There are no incentives provided by tax legislation for the construction of or conversion of existing housing*

*to social housing, e.g. income or profit tax rebates or exemptions. This should be considered, as well as enabling local governments to provide land for social housing programmes, for free or at a low price.*

### Recommendation 29

*Municipalities should consider to what extent existing dwellings could be used for social housing purposes.*

*Before exploring possibilities of investing in new accommodation, it should be analysed (e.g. in a survey) whether existing unfinished housing,*

*repair, upgrading and maintenance of run-down estates can contribute to an increase in supply of affordable housing.*

### Recommendation 30

*State or local government grants, loans, guarantees or equity share loans for essential repairs should be introduced.*

*If necessary, targeted support for these purposes should be provided for low-income households. In addition, a means tested housing allowances system for vulnerable households should be considered. The system should be based on all expenses connected to housing consumption, i.e.*

*capital expenditure, rent, expenditure for heating, water sewage, and take into account the household's own capacity to pay for housing expenditures. All tenures should be eligible for housing allowances. This will decrease the pressure on the need for social housing.*

### Recommendation 31

*Realistic standards should be defined for the quality of social housing.*

*These standards should include floor space, amenities, repair, maintenance and energy efficiency. Small scale social housing projects, e.g. in Tbilisi, should be initiated for use as*

*models for other local governments. Emergency accommodation should be a particular priority, especially for households with children and pensioners.*

## **Recommendations – Financial framework**

### Public finance

### Recommendation 32

*Financial means for housing projects on the municipal level should be increased.*

*These could be funded by own revenues of local self-government units as foreseen in the corresponding budget law. Revenues from land tax and sale of municipal land should be earmarked for housing purposes. In addition, tax collection has to be enforced, and local*

*governments might consider introducing fees for selective communal services. On the national and local level, parts of additional tax revenues resulting from economic growth should also be allocated for housing purposes.*

### Recommendation 33

*Legislation for the effective management of State-owned land should be drafted.*

*This legislation is supposed to ensure the effective management of land that remains in State ownership, and should contain the standards and relevant procedures for determining public land and the circumstances under which the State has the right to dispose of such land. This legislation should facilitate the transfer of what is identified*

*as public construction land to local self-government, and the privatization construction land through transparent auctions. It is recommended that such legislation expressly address the use of revenues generated through the management and sale of public lands.*

### Recommendation 34

*Legislation on land/real estate mass evaluation should be adopted.*

*Mass evaluation is crucial to determine the taxable value of land and real estate objects. Full use should be made of the UNECE study on Land (Real Estate) Mass Valuation Systems for Taxation Purposes in Europe (Federal Land Cadastre Service of Russia, on behalf of the*

*UNECE Working Party on Land Administration. Land (Real Estate) Mass Valuation Systems for Taxation Purposes in Europe. Moscow, 2001). To further support real estate development, a certified real estate appraisal system should be introduced.*

### Private Investment

### Recommendation 35

*Investment in housing should be encouraged.*

*Systematic investment promotion through the simplification of administrative procedures, the creation of a favorable investment climate, the reduction of entry barriers and appropriate incentives like differentiated tax rates and tax*

*exemptions should be carried out. Within this framework, private (local and foreign) investment should not only be directed to new construction, but also to renewal, repair and maintenance.*

### Recommendation 36

*Possibilities of public-private partnerships should be explored and adapted to the housing sector.*

*Public-private partnerships include co-financing models where the State contributes to the financing of repair and maintenance under the condition that owners and tenants share a part of the costs. Local governments might consider the establishment of funds on the municipal level or within homeowners' associations to carry out repair and maintenance in collaboration with residents. Another option is the provision of municipal land for construction projects that contribute to the achievement of local housing*

*goals. Part local government part private financed maintenance projects such as Tbilisi Corps could also be further developed as public/private partnerships. An institution such as Tbilisi Corps that receives applications for financing from homeowners' associations could in addition provide guarantees to banks to provide loans to homeowners' associations. Dependency of direct financing from the budget of the local government would therefore be reduced.*

### Mortgage and banking market

### Recommendation 37

*Legislation for mortgages needs to be amended, as set out in chapter V.*

*Provisions of the Civil Code (title three, chapter 6) impede mortgage lending, repayment and sale of foreclosed property. For instance, a debtor may be entitled to stay in a foreclosed building as a tenant, which makes it practically impossible to*

*remove him. The lack of specific rules on auctioning property results in lengthy procedures.*

*The Government should also consider introducing a centralized database for notaries to avoid*

*coexistence of more than one notarized agreement. Full use should be made of the UNECE housing finance guidelines (Housing*

*Finance Systems for Countries in Transition, Principles and Examples, 2005) when developing the mortgage system.*

### Recommendation 38

*The development of a market-driven banking sector should be supported.*

*In particular, the development of (local) long-term refinancing facilities for banks should be promoted. Authorities should continue efforts to implement goals set out in the Georgian Banking System Development Strategy (National Bank of Georgia, Georgian Banking System Development Strategy for 2006-09), namely to consolidate, reduce concentration and increase competition in*

*the banking sector; to raise the level of financial intermediation, investor and client confidence in the banking sector; and to consider introducing deposit insurance and microfinance schemes at local and rural levels. These measures may be supplemented by guarantee schemes to reduce risk premiums in interest rates and to improve access to and affordability of mortgage loans.*

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The UNECE Committee on Housing and Land Management, an intergovernmental body of all UNECE member States, provides a forum for the compilation, dissemination and exchange of information and experience on housing, spatial planning and land administration. The Committee supports the economic and social stabilization of transition countries by suggesting innovative ways the different levels of Government can cooperate. Through its various workshops, research on urban issues and land administration, and analyses of the housing sector, the Committee advises member countries on human settlements policies and strategies, and encourages their practical implementation.

Within the Committee's programme of work, the country profiles on the housing sector represent a tool for Governments to analyse their policies, strategies, institutions, and legal and financial frameworks for the housing sector. These profiles are analytical studies, drafted by independent international experts and conducted at the request of the countries themselves. Recommendations for improving policies and practices are an essential part of the exercise.

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